BANKING SUPERVISION
ANNUAL REPORT | 2025

MISSION STATEMENT

The mission of the Bank of Botswana (Bank) is to safeguard price and financial stability, strengthen trust in the national currency, and promote inclusive and sustainable economic development through sound policy, regulation and strategic advice.

In pursuit of a key aspect of this mission, the Bank established the Prudential Authority and Payments Oversight Department with a mandate to promote and maintain an efficient, a safe, stable, sound and reliable banking operations and national payments system. In its supervisory role, the Bank is guided by the Bank of Botswana Act (Cap. 55:01), including the Banking Act, 2023 (Banking Act), Banking Regulations, 2025, Bureaux de Change Regulations of 2004, Financial Intelligence Act, 2022 (FI Act), 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 within the Bank's regulatory and supervisory purview.

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

To achieve these goals, the Bank

a. sets transparent criteria, issues guidelines, and stipulates other requirements for market entry in the Licensing Policy;

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

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

d. establishes effective systems for off-site surveillance and on-site examinations, including reporting, accounting, auditing and disclosure standards;

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

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

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

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

BANKING SUPERVISION ANNUAL REPORT 2025

BANK OF BOTSWANA

CONTENTS

BANK OF BOTSWANA: BANKING SUPERVISION

CONTENTS

ABBREVIATIONS

Absa	Absa Bank Botswana Limited
Access Bank	Access Bank Botswana Limited
AML/CFT/CPF	Anti-Money Laundering and Combating the Financing of Terrorism and Combating Proliferation Financing
ATM	Automated Teller Machine
BACH	Botswana Automated Clearing House
Banking Act	Banking Act, 2023
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
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk
CAR	Capital Adequacy Ratio
CB	Central Bank
CET1	Common Equity Tier 1
CPMI	Committee on Payments and Market Infrastructures
Credbase	Credbase (Pty) Ltd
CSDB	Central Securities Depository Botswana
DTA	Deferred Tax Assets
DTI	Deposit-taking Institutions
EFT	Electronic Funds Transfer
EPS	Electronic Payment Service
FATF	Financial Action Task Force
FCB	First Capital Bank Limited
FIA	Financial Intelligence Agency
FI Act	Financial Intelligence Act, 2022
Fintech	Financial Technology
FNBB	First National Bank of Botswana Limited
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
LAR	Liquid Asset Ratio
Micro-Finance	Micro-Finance Credit Bureau (Pty) Ltd
ML/TF/PF	Money Laundering, Terrorist Financing and Proliferation Financing
MVTS	Money or Value Transfer Service

ABBREVIATIONS (CONTINUED)

NDB	National Development Bank
NIM	Net Interest Margin
NPLs	Non-performing Loans
NPS	National Payments System
OKP Botswana	OKP Botswana (Pty)
OSS	Off-site Surveillance
PA	Prudential Authority
PFMIs	Principles for Financial Market Infrastructures
PIPs	Politically Influential Persons
PoS	Point of Sale
RBS	Risk-based Supervision
RoAA	Return on Average Assets
RoE	Return on Equity
RWA	Risk-weighted Asset(s)
SA	Standardised Approach
SACCOS	Savings and Credit Cooperative Society
SADC	Southern African Development Community
SADC-RTGS	Southern African Development Community Real Time Gross Settlement
SARB	South African Reserve Bank
SIPS	Systemically Important Payment Systems
SMM	Standardised Measurement Method
Stanbic	Stanbic Bank Botswana Limited
Stanchart	Standard Chartered Bank Botswana Limited
TransUnion	TransUnion (Proprietary) Limited
UBOs	Ultimate Beneficial Owners
USD	United States dollar
ZAR	South African rand

FOREWORD

This Banking Supervision Annual Report presents information on the structure, performance and general state of the banking industry, overview of the national payments system and developments pertaining to banking regulation and supervision in Botswana in 2025. Section 41 of the Banking Act, 2023 (Cap. 46:04) obligates the Bank of Botswana (Bank) to submit to the Minister of Finance, by 30 June each year, a report on the business affairs of all banks, and of all persons or institutions whose affairs were examined by the Bank and all other pertinent matters, which the Bank has dealt with in any given year. The Bank has always complied with this statutory obligation.

In 2025, global economic growth remained subdued on account of lagged effects of the general tightening of monetary policy globally in 2024 to curb inflation; persistent geopolitical, and trade tensions, and policy uncertainty, particularly surrounding the protectionist policy posture of the United States of America (USA); as well as extreme weather events, which weakened productivity and economic growth. The April 2026 World Economic Outlook update of the International Monetary Fund indicates that global economic growth is estimated at 3.4 percent in 2025, the same as in 2024, and below the historical (2000–2019) annual average of 3.7 percent.

For Botswana, the Ministry of Finance estimates the economy to have contracted by 0.4 percent in 2025, following the decline of 2.8 percent in 2024. The contraction reflects the continued weak performance of the diamond market, subdued global economic growth and the potential adverse effects of the USA-led tariffs war.

On regulatory developments, the Bank received one application for a banking licence. Assessment of the application was ongoing as at the end of 2025. Therefore, there was no new banking licence issued in that year. Consequently, the number of licensed banks in Botswana remained at nine. On the other hand, the Bank issued bureau de change licences to four entities, whereas five bureaux de change voluntarily surrendered licences, and one licence was revoked; as a result, the number of operating bureaux de change decreased from 49 in 2024 to 47 in 2025. Moreover, the number of operating electronic payments-service providers and money or value-transfer-services providers decreased from 24 to 22 in the same period.

On 15 August 2025, the Banking Act, together with its regulations, came into effect, introducing provisions that would strengthen the country's financial sector as well as aligning Botswana's regulatory framework with international trends and standards. The Banking Act introduced, among others, licensing and supervision of deposit-taking institutions, enhanced governance standards, resolution regime that enables the management of failing banks without disrupting the financial system, and the appeals tribunal to provide fair remedy in cases of regulatory disputes.

The Bank continues to prioritise the development of a safe, efficient, and forward-looking payments ecosystem as a key enabler of financial stability and economic growth. In line with its mandate, the Bank ensures that payment systems operate in accordance with applicable legislation, international standards, and best practices, while advancing initiatives to modernise infrastructure and enhance interoperability. These efforts are closely aligned with the government's economic transformation agenda under the Botswana Economic Transformation Programme, which emphasises faster, more efficient, and interoperable payments to support digitalisation and improve the ease of doing business.

Key reforms include enhancements to the electronic funds transfers clearing and settlement framework by introducing an additional clearing and settlement window at 1700 hours, and the enforcement of timely crediting of funds after completion of every settlement window to improve the timeliness of customer fund availability and customer experience. Progress in regional integration, including participation in the SADC Real Time Gross Settlement system, alongside continuing efforts to achieve system-wide interoperability between banks and electronic money issuers, underscores the Bank's commitment to a seamless, inclusive, and modern payments ecosystem and to strengthen Botswana's position within the regional and global financial system.

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

In 2025, banks were generally compliant with regulatory and prudential requirements; in instances of non-compliance, appropriate supervisory action, including remedial measures, was taken in accordance with applicable laws and regulations. Overall, the banking system remained safe, sound, profitable, liquid and adequately capitalised.

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

Lesego C Moseki
GOVERNOR

SUPERVISORY PRIORITIES FOR 2023-2025

The strategic focus for 2025 was to, among others, modernise the national payments system to future-proof the system and align it with national and regional priorities, strengthen supervisory frameworks to enhance the soundness and operational resilience of banks, and enhance supervisory capacity to effectively supervise banks/deposit-taking institutions (DTIs) and savings and credit cooperative societies (SACCOS) of different levels of complexity, risk profile and size. The Bank reviewed and updated the regulatory framework governing payment systems to sustain the integrity, safety, and efficiency of the system; issued guidelines to the market to promote best practice in the banking industry and laid the foundation for the prudential supervision of SACCOS and DTIs. The additional supervisory focus was management of climate-related financial risks, and the Bank circulated a questionnaire to banks to assess the readiness of the sector to manage climate-related financial risks. The Bank also conducted an industry consultation on the introduction of guidelines on climate-related financial risks. In addition, the Bank developed a framework on licensing and supervision of digital banks during the year.

Mr Godfrey Ngidi
Director
Prudential Authority and Payments Oversight Department

Mr Joshua Sibonge
Deputy Director
Regulatory Policy and Licensing Division

Ms Omponye Mosenene
Deputy Director
Prudential Supervision Division

Mr Patrick Lesotlho
Deputy Director
Payments Oversight Division

INTRODUCTION[1]

Consistent with the mission of the Bank of Botswana (Bank) of contributing to the sound economic and financial well-being of the country, empowered by the Bank of Botswana Act (Cap. 55:01) as amended, 2022, Banking Act, 2023 (Banking Act) and the Bank of Botswana (Bureaux de Change) Regulations, the Bank regulates and supervises banks, bureaux de change and deposit-taking institutions. Further, the Bank also regulates and supervises credit information bureaus, through the Credit Information Act, 2021, and payment systems in accordance with the National Clearance and Settlement Systems Act (Cap. 46:06).

Over the last three years, the number of commercial banks, statutory banks and credit bureaus operating in Botswana was unchanged at nine commercial banks, two statutory banks and three credit bureaus. On the other hand, the number of operating bureaux de change fell from 49 in 2024 to 47 in 2025, and electronic payment services, and money or value-transfer-service providers fell to 22 from 24. The electronic payment services, and money or value-transfer-service providers had a nationwide distribution network of over 2 500 authorised agents.

Employment in the banking industry increased by 1.3 percent from 5 293 in 2024 to 5 364 in 2025. The increase in the number of employees, which was spread across the nine banks, reflected expansion of business activities by some banks. Further, banks continue to leverage technological and customer preference for digital banking by designing digitally enabled financial-product offerings and digitalising operational processes, a development that has the potential to drive the financial inclusion agenda. In that regard, 15 applications for products and services were received from banks, out of which 13 were approved.

Commercial banks continued to fulfil their financial intermediation role despite the slowdown in economic activity and liquidity challenges during the review period. Total assets of commercial banks increased by 1.8 percent from P144 billion in December 2024 to P146.5 billion in December 2025, a lower growth rate than the 7.7 percent reported in the prior year, reflecting a moderate growth of 3.3 percent (2024: 6.5 percent) in gross loans and advances from P87.1 billion to P90 billion in the same period.

The growth in the balance sheet was funded largely by customer deposits, which increased at the same rate of 3.3 percent, as for loans and advances, from P107.3 billion in 2024 to P110.8 billion in 2025; customer deposits constituted 75.6 percent of total liabilities. The financial intermediation ratio was slightly above the recommended range of 50–80 percent, at 81.2 percent for the second consecutive year, reflective of the significant role of banks operating in Botswana in supporting economic growth.

Total assets for statutory banks amounted to P6.6 billion in 2025, a decrease of 2.3 percent from P6.7 billion in 2024, reflecting a fall of 6.4 percent in loans and advances from P5.8 billion in 2024 to P5.4 billion in 2025.

The contribution of the banking industry to economic growth, as measured by a ratio of private credit to nominal GDP maintained an upward trajectory over the last four years, increasing from 27.2 percent in 2022 to 31.4 percent in 2025. The ratio was nevertheless low by international standards, although it was higher than that of some countries in the region.

[1] Due to the rounding of underlying source data, individual figures presented in this document may not exactly reconcile with totals or independently calculated amounts.

INTRODUCTION (CONTINUED)

The combination of digital transformation and product innovation by banks, evolving consumer preferences, enhanced efforts by government at expanding financial inclusion, improved consumer awareness of financial services and products through financial literacy campaigns, offers prospects for further financial development.

The banking industry was solvent and complied with minimum prudential standards for regulatory capital requirements during the review period; unimpaired capital for commercial banks grew by 7.4 percent from P18.3 billion in 2024 to P19.7 billion in 2025 and for statutory banks by 16.1 percent from P1.4 billion in 2024 to P1.6 billion in 2025. All banks reported capital adequacy and common equity Tier 1 capital ratios above the respective prudential minimum limits of 12.5 percent and 4.5 percent.

On asset quality of commercial banks, total past due loans (loans in payment arrears) increased by 24.6 percent from P4.2 billion in 2024 to P5.2 billion in 2025, with the resultant growth of 11.3 percent in specific provisions from P1.5 billion to P1.6 billion, in the same period. Non-performing loans (NPLs) (impaired loans) nevertheless remained at P3 billion between 2024 and 2025, whereas the ratio of NPLs to gross loans and advances eased from 3.4 percent in 2024 to 3.3 percent in 2025, reflecting improved asset quality, albeit marginal. The gain in asset quality was further reflected by the net NPLs (net of specific provisions) to unimpaired capital ratio, which declined from 8.3 percent in 2024 to 7 percent in 2025, indicating the enhanced capacity of capital to withstand losses arising from NPLs.

The banking industry loan book was adequately diversified, as the ratio of large exposures to unimpaired capital fell from 142.4 percent in 2024 to 132 percent in 2025 and remained below the 800 percent maximum prudential limit, thus reflecting a generally low credit concentration risk in the banking industry.

Meanwhile, the asset quality of statutory banks deteriorated, as aggregate NPLs increased by 12.1 percent from P330.1 million in 2024 to P369.9 million in 2025. Consequently, the ratio of NPLs to gross loans and advances for the banks increased from 5.7 percent to 6.7 percent in the same period.

The composite credit risk for the banking industry was assessed to be moderate, while the inherent credit risk is likely to increase over the next 12 months, given that household sector loans constituted the highest share of the banking industry loan book, at 64 percent, and that the sector is vulnerable to economic shocks. Further, the announced increase in income tax and transport fares, and the war in the Middle East, which has disrupted supply chains and induced global inflationary pressures, among others, have the potential to moderate disposable incomes and to some degree reduce customers' capacity to service loans, resulting in the deterioration of credit conditions over the next 12 months. However, there could also be reallocation of spending by customers that enables maintenance or capacity to repay loans.

Commercial banks remained liquid despite the unfavourable liquidity distribution situation experienced by banks during the review period. Statutory liquid assets of commercial banks grew by 8.7 percent from P19.2 billion in 2024 to P20.9 billion in 2025. The liquid assets were concentrated on treasury bills, which constituted 46.8 percent of the total liquid assets, thus exposing the banking industry to sovereign risks and requiring close monitoring by the Bank. The liquid assets ratio for the banking industry was 18.9 percent, a marginal growth from 17.9 percent as at 31 December 2025, which was significantly above the regulatory prudential minimum limit of 10 percent.

INTRODUCTION (CONTINUED)

Financial market infrastructures (FMIs) operating in Botswana were assessed to be stable and robust, thus supporting and preserving domestic financial stability. FMIs, that is, the Botswana Interbank Settlement System (BISS), Botswana Automated Clearing House (BACH) and Central Securities Depository Botswana, continued to deliver secure and reliable clearing and settlement services.

The volume of transactions settled in BISS increased by 3.7 percent from 223 520 in 2024 to 231 722 in 2025, whereas the value decreased by 0.6 percent from P1.57 trillion to P1.56 trillion in the same period. Correspondingly, the volume and value of EFT transactions processed through the BACH system increased by 2.5 percent each from 12.5 million to 12.8 million transactions and P333.5 billion to P341.8 billion, respectively, during the review period. The growth in EFT transactions indicates increasing use of electronic payments for economic transactions.

The Bank continues to modernise the national payments system as evidenced by, among others, the reviewing and updating of laws, regulations, and policies governing payment systems to sustain the integrity, safety, and efficiency of the NPS mandating BACH to increase clearing windows to enhance liquidity flow and efficiency, and system-wide interoperability between banks and licensed electronic-money issuers to facilitate seamless transactions across platforms.

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

Moreover, the Bank continued to monitor supervised institutions for compliance with the anti-money laundering and combatting the financing of terrorism and proliferation financing obligations as prescribed in the Financial Intelligence Act, 2022 through both on-site examinations and off-site surveillance. The on-site examination revealed some deficiencies, and the affected institutions were directed to address the deficiencies, and in some cases, monetary fines were imposed for non-compliance.

Regarding conduct of business, banks were found to have complied with the minimum public disclosure and statutory requirements on bank charges by publishing monthly indicative deposit interest rates as prescribed in the disclosure directive.

This Banking Supervision Annual Report is divided into six thematic chapters: Chapter 1 outlines the structure of Botswana's financial system and presents selected indicators; Chapter 2 focusses on assessment of financial performance of the banking industry in 2025; Chapter 3 discusses the national payments system, while Chapter 4 reports on licensing and consumer protection; other supervisory activities are highlighted in Chapter 5; and Chapter 6 provides highlights of on-site examination and off-site surveillance. There are technical notes in appendices relating to the framework for banking supervision in Botswana, schedule of institutions regulated and supervised by the Bank, glossary of banking supervision terminology in the report, as well as 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

THE BANKING INDUSTRY STRUCTURE, EMPLOYMENT AND FINANCIAL SERVICES

1.1 As at 31 December 2025, there were nine commercial banks operating in Botswana, of which eight are subsidiaries of foreign banks, one a local bank, and two statutory banks. The number of operating bureaux de change was 47, a decrease from 49 in the previous year due to the closure of six and licensing of four. Further, the number of credit bureaus remained at three from December 2024: TransUnion (Proprietary) Limited (TransUnion), Micro-Finance Credit Bureau (Pty) Ltd (Micro-Finance) and Credbase (Pty) Ltd (Credbase).

Banking Industry Branch Network and Other Delivery Channels

1.2 Despite digitalisation of banking operations, banks continue to open branches and increase automated teller machines (ATMs) to reach more customers in areas where they have no physical presence in pursuit of business expansion, thus contributing to financial inclusion (Table 1.1). During 2025, the number of bank branches increased to 169 from 162, and ATMs to 658 from 649 in 2024.

1.3 The increase in the number of ATMs is a welcome development, as it indicates the country's gradual shift towards a less-cash society, given that ATMs do not only dispense cash but offer cardless transactions for both bank and non-bank customers at lower transaction costs. ATMs also provide convenience for customers, allowing them to transact wherever they are and at any time.

1.4 The bank-branch network increased across the country between 2024 and 2025, and Gaborone District gained three branches, and one branch each in the following Districts: Francistown, Ghanzi, Kweneng and Mogoditshane-Thamaga. The Gaborone District continues to lead the concentration of branches, with 54, reflective of higher economic activity, leading to higher demand for financial services, followed by the Francistown District with 13. Meanwhile, the bank-branch network for the rest of other districts was unchanged (Appendix 2).

Table 1.1: Branches and ATMs: 2023 - 2025

		Branches and Sub-branches			ATMs		
		2023	2024	2025	2023	2024	2025
Large Banks	Absa	36	35	36	114	127	128
	Stanchart	14	14	14	71	66	66
	FNBB	27	27	30	251	257	259
	Stanbic	13	13	16	79	78	81
Sub-total		**90**	**89**	**96**	**515**	**528**	**534**
Small banks	Access Bank	21	21	21	59	58	59
	Baroda	4	4	4	7	7	7
	Bank Gaborone	12	12	12	23	23	24
	FCB	11	11	11	5	5	5
	BBS Bank	10	10	10	10	11	12
Sub-total		**58**	**58**	**58**	**104**	**104**	**107**
Total for Commercial Banks		**148**	**147**	**154**	**619**	**632**	**641**
Statutory Banks	BSB	11	11	11	17	17	17
	NDB	4	4	4	-	-	-
Total for Statutory Banks		**15**	**15**	**15**	**17**	**17**	**17**
Overall total		**163**	**162**	**169**	**636**	**649**	**658**

* 2023 figures were revised.
Source: Commercial and Statutory Banks (Statutory Returns submitted to the Bank).

1.5 The number of point-of-sale (PoS) machines increased gradually over the years, supporting a more digital and financially inclusive economy, and adoption of electronic-card payments by the public. In addition to processing of payments, PoS terminals are used for cash-back transactions at selected retail stores, thus allowing for customers to have access to cash when they need it. PoS terminals increased by 15.2 percent from 27 586 in 2024 to 31 772 in 2025. FNBB owned 51.1 percent of the number of PoS terminals, while the rest were distributed among Absa, Stanbic, Bank Gaborone, Access Bank and FCB (Table 1.2).

Table 1.2: Point-of-Sale Terminals and Ownership: 2023–2025

Banks	Point of Sale		
	2023	2024	2025
FNBB	13 428	14 767	16 240
Absa	5 694	6 291	6 291
Stanbic	3 208	3 155	3 695
Bank Gaborone	1 333	1 166	2 357
Access Bank	1 352	1 729	2 212
FCB	0	478	977
Total	**25 015**	**27 586**	**31 772**

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

Financial Access Indicators

1.6 Financial inclusion, an indicator of use of banking/financial services, as measured by the ratio of the number of depositors to adult[2] population improved from 86 percent in 2024 to 90.2 percent in 2025. The number of depositors grew by 7.4 percent from 1.5 million in 2024 to 1.7 million in 2025, while that of the adult population increased by 2.5 percent from 1.8 million to 1.84 million in the same period.

1.7 Access to banking services, as measured by ATMs per 1000 square kilometres was unchanged at one ATM per 1 000 square kilometres in 2025, from 2024, while the number of ATMs per 10 000 adults slightly fell from 3.61 to 3.57, reflecting a marginal uptake of digital financial services by consumers. The low ratio is also a statistical indicator of the sparse geographic population distribution in the country.

Banking Industry Employment Trends: 2024–2025

1.8 The banking industry employment levels for 2024 and 2025 are presented in Table 1.3; the industry employed 5 364 people as at 31 December 2025, an increase of 1.3 percent from 5 293 in 2024. Growth in employment was spread across nine banks reflecting expansion of the business. Conversely, staffing levels at two banks declined mainly owing to increased automation of work processes and use of digital channels, as well as voluntary and involuntary employee separation. Meanwhile, the representation of expatriates in the banking industry was 0.7 percent, the absolute number of which fell from 40 to 38 in the same period.

1.9 Overall, employment in large banks marginally declined by 0.1 percent from 3 553 in 2024 to 3 549 in 2025, while at small banks the number increased by 6.6 percent from 1 293 to 1 378 in the same period. Moreover, the number of workers at statutory banks fell by 2.2 percent from 447 in 2024 to 437 in 2025.

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.

Table 1.3: Level of Employment by Domestic Banks: 2024–2025

		2024			2025		
		Citizens	Expatriates	Total	Citizens	Expatriates	Total
Large Banks	Absa	904	5	**909**	912	4	**916**
	Stanchart	393	8	**401**	370	6	**376**
	FNBB	1 619	2	**1 621**	1 618	3	**1 621**
	Stanbic	620	2	**622**	634	2	**636**
Sub-total		**3 536**	**17**	**3 553**	**3 534**	**15**	**3 549**
Small Banks	Access Bank	401	2	**403**	432	2	**434**
	Baroda	49	14	**63**	55	15	**70**
	Bank Gaborone	328	1	**329**	345	0	**345**
	FCB	241	5	**246**	267	4	**271**
	BBS Bank	251	1	**252**	256	2	**258**
Sub-total		**1 270**	**23**	**1 293**	**1 355**	**23**	**1 378**
Total for Commercial Banks		**4 806**	**40**	**4 846**	**4 889**	**38**	**4 927**
Statutory Banks	BSB	232	0	**232**	246	0	**246**
	NDB	215	0	**215**	191	0	**191**
Total for Statutory Banks		**447**	**0**	**447**	**437**	**0**	**437**
Overall Total		**5 253**	**40**	**5 293**	**5 326**	**38**	**5 364**

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

New Banking Industry Products and Services

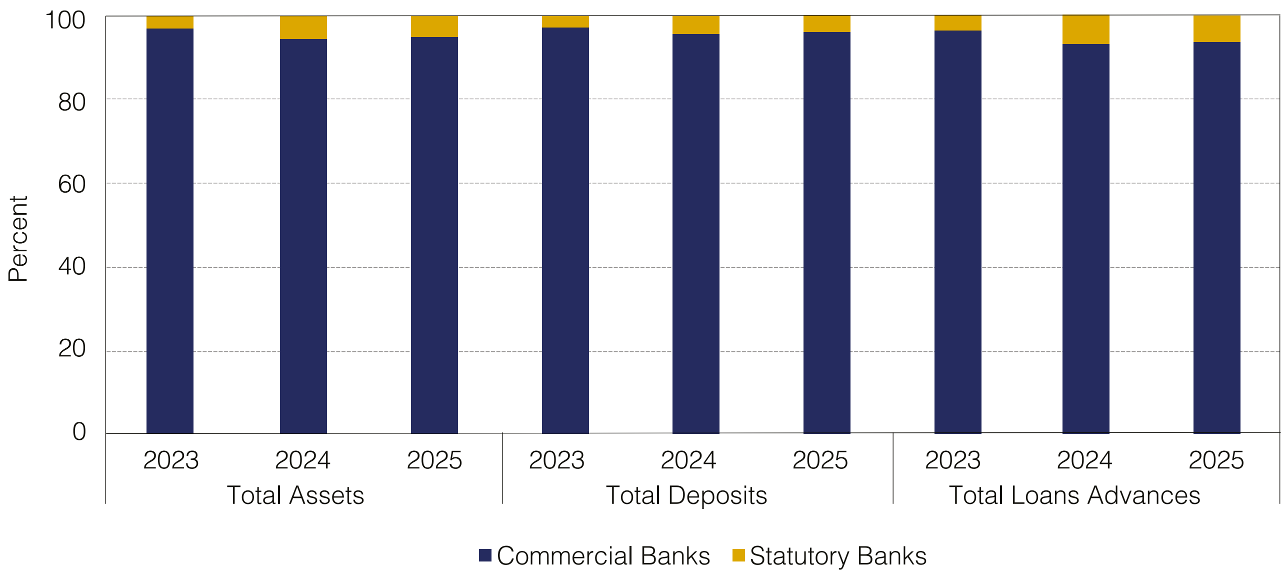
1.10 During the year, banks continued to develop, enhance and diversify their products and services to meet evolving customer needs and to accommodate and harness industry and technical innovation in areas of potential business growth. The Bank assessed 15 products and services from different banks, including two brought forward from the previous year. From the 15 products and services, 13 were approved, one rejected, while one was under review as at 31 December 2025.

BANKING INDUSTRY COMPETITION AND CONCENTRATION

Market Share

1.11 Commercial banks continued to be major drivers of financial intermediation, controlling a significant share of total assets, deposits, and loans and advances, while statutory banks lagged. The market share for commercial banks was 95.7 percent for assets, 96.4 percent for deposits and 94.3 percent for total loans and advances (Chart 1.1), whereas the market share for statutory banks by value of assets, deposits, and loans and advances was 4.3 percent, 3.6 percent and 5.7 percent, respectively.

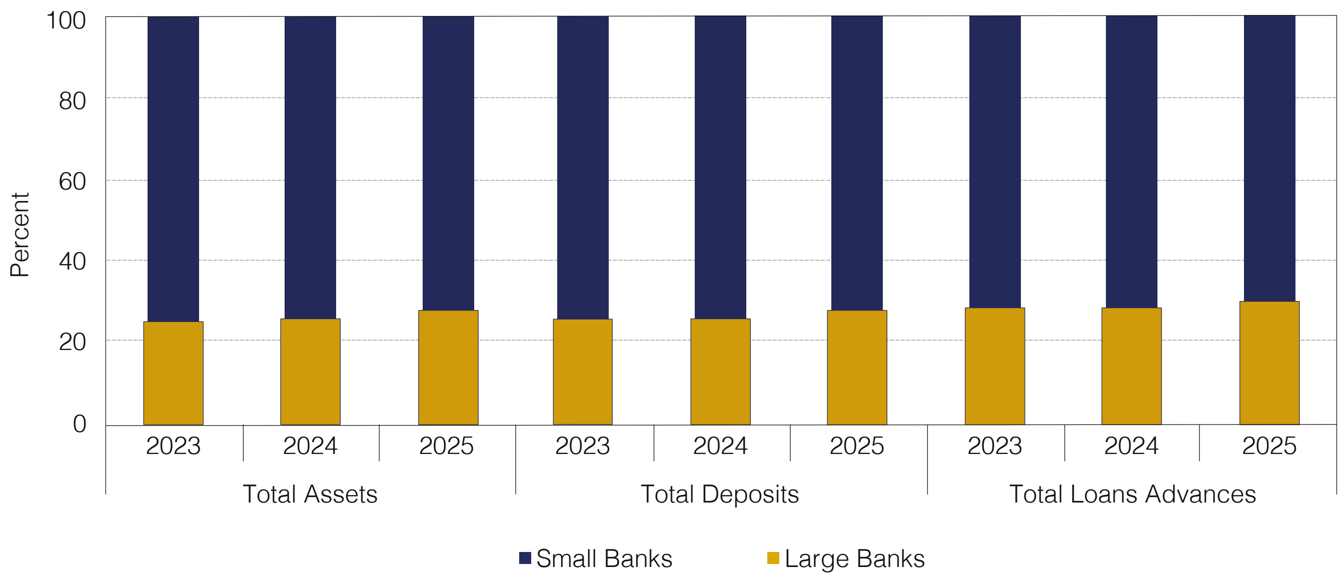
Chart 1.1: Market Share: Total Assets, Total Deposits, and Total Loans and Advances of the Banking Industry: 2023–2025 (Percent)



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

1.12 In the period under review, the four large banks[3] continued to dominate the commercial bank operations and accounted in aggregate for 73.9 percent, 74.9 percent and 69.8 percent of total assets, deposits, and loans and advances, respectively (Chart 1.2). Meanwhile, small banks marginally increased their market share with respect to total assets, deposits, and loans and advances in 2025.

Chart 1.2: Market Share: Total Assets, Total Deposits, and Total Loans and Advances of Commercial Banks: 2023–2025 (Percent)



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

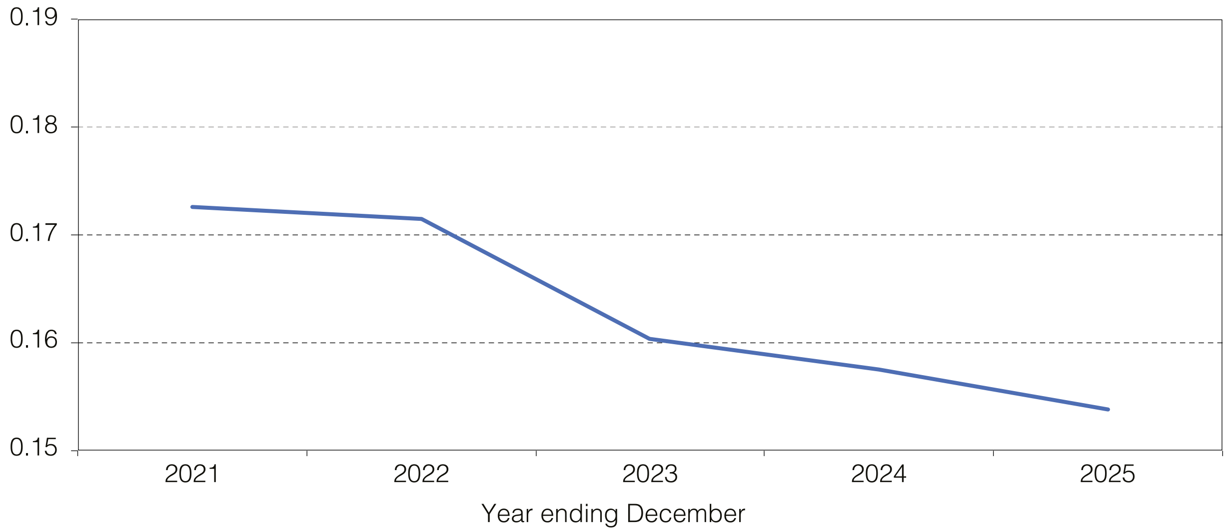
[3] A large bank refers to a bank with total assets amounting to at least 10 percent of commercial banks consolidated assets as at 31 December 2025.

Market Competition Indicators

The Herfindahl-Hirschman Index of Competitiveness

1.13 The Bank uses the Herfindahl-Hirschman Index (HHI[4]), a widely applied measure of market concentration to assess the degree of competition in the Botswana banking industry. HHI slightly decreased from 0.15739 in 2024 to 0.15380 in 2025, reflecting a marginal increase in the market share of small banks with respect to total assets, deposits and loans and advances. The marginal decline in the HHI index suggests an improvement in the level of competition in the banking industry. The index, however, has remained below 0.1800 over the years, indicating a moderately concentrated market and therefore modest competition.

Chart 1.3: Herfindahl-Hirschman Index (HHI): 2021–2025



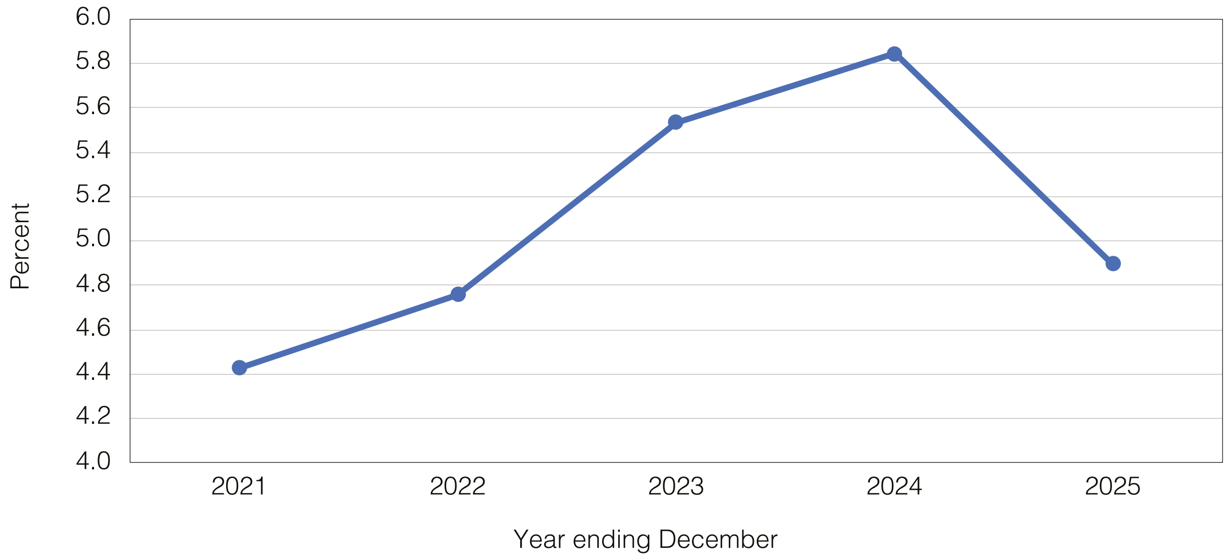
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Net Interest Margin

1.14 The net interest margin for the banking industry fell from 5.8 percent in 2024 to 4.9 percent in 2025, indicating enhanced competition in 2025.

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

Chart 1.4: Commercial Banks Trend of Net Interest Margin: 2021–2025 (Percent)

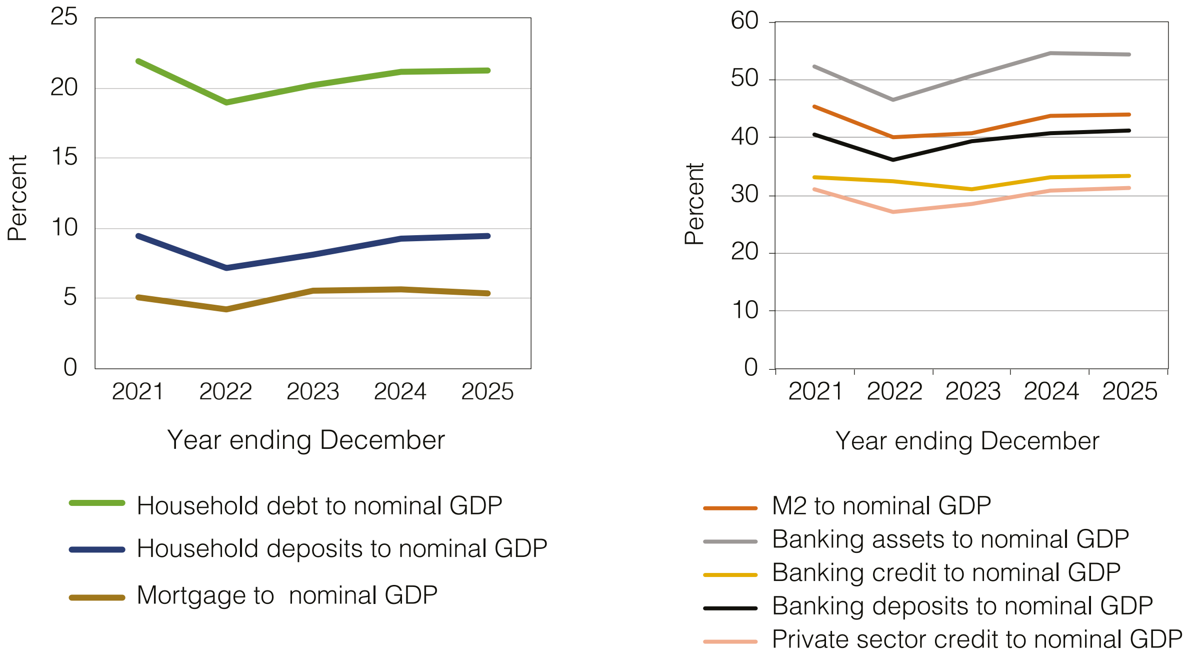


Source: Commercial Banks (Statutory Returns submitted to the Bank).

FINANCIAL DEPTH AND BANKING INDUSTRY SIZE

1.15 Financial depth refers to the size, liquidity and development of the financial services sector relative to economic output. The measure evaluates the capacity of financial institutions, such as banks to mobilise financial resources to support economic activity and growth. Ratios that are commonly used to measure financial depth and development are shown on Chart 1.5 and Chart 1.6. Overall, between 2024 and 2025, financial development, including depth, improved, reflecting the capacity of financial institutions to mobilise savings to finance investment and enhance product offerings through technological advances, thus potentially contributing to economic growth. There is, however, potential for further deepening of the financial sector through targeted strategic initiatives by financial institutions. An additional pathway for financial development is a deliberate concerted effort at developing financial infrastructure, fostering and promoting growth of the capital market to diversify financial investment and expand financial inclusion, as well as accelerating the implementation of green financing policies to support development of new financial products.

Chart 1.5: Financial Deepening Indicators: 2021–2025 (Percent)



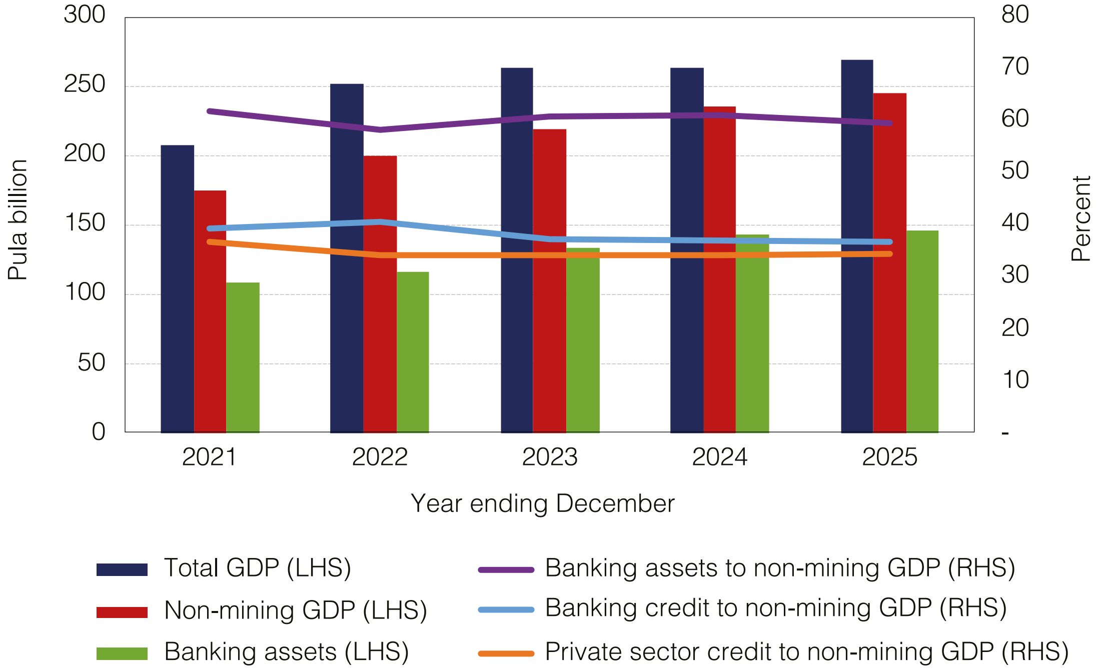
Source: Commercial Banks (Statutory Returns submitted to the Bank) and Statistics Botswana.

1.16 Financial depth, as measured by the ratio of private sector credit[5] to nominal GDP, increased from 30.8 percent in 2024 to 31.4 percent in 2025 (Chart 1.5). The respective comparable figures for Namibia and South Africa were 48.2 percent and 57.6 percent in 2024. Private sector credit as a percentage of non-mining nominal GDP remained unchanged at 34.4 percent in the same period (Chart 1.6).

1.17 The banking industry credit as a percentage of nominal GDP increased from 33.1 percent in 2024 to 33.4 percent in 2025. The size of banking assets relative to nominal GDP marginally decreased from 54.7 percent in 2024 to 54.4 percent in 2025 (Chart 1.5). Similarly, the ratio of banking assets to non-mining nominal GDP decreased from 61.1 percent in 2024 to 59.8 percent in 2025 (Chart 1.6).

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

Chart 1.6: Financial Sector Size and Depth Indicators: 2021–2025



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

1.18 The level of M2[6] relative to nominal GDP ratio, which estimates the degree of monetisation of an economy, increased from 43.8 percent in 2024 to 44.1 percent in 2025, indicating an increased financial support for the economy through resources mobilised by the banking system. The average for Southern African Development Community (SADC) countries was 43 percent in 2024.

1.19 The ratio of household debt[7] to nominal GDP marginally increased from 21.2 percent in 2024 to 21.3 percent in 2025. Conversely, the commercial bank mortgage as a percentage of nominal GDP marginally decreased from 5.7 percent in 2024 to 5.3 percent in 2025. Including statutory-bank-issued mortgage, the percentage fell from 5.9 percent in 2024 to 5.6 percent in 2025 owing to liquidity challenges experienced by banks during the review period. The amount of housing finance relative to the size of the economy continues to be significantly low despite the lower interest rates on mortgages. The ratio of household deposits to nominal GDP[8] rose from 9.2 percent in 2024 to 9.5 percent in 2025.

6 M2 (P118 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 Household debt increased by 2.6 percent compared with 1.8 percent increase in nominal GDP.

8 Household deposits increased by 7.3 percent compared with a 0.5 percent increase in nominal GDP.

1.20 The value of pension-fund assets as a proportion of nominal GDP increased from 57.9 percent in 2024 to 62.1 percent in 2025, reflecting a faster growth of 12.9 percent in pension fund assets against a 2.3 percent growth in nominal GDP. Total household savings, including pension funds, amounted to P192.8 billion in 2025 while the level of household borrowing was P57.2 billion in the same period, overall, indicating that the household sector was a net saver.[9]

1.21 The value of transactions executed through electronic funds transfers (EFTs) increased by 2.4 percent from P333.5 billion in 2024 to P341.8 billion in 2025, while EFTs as a proportion of nominal GDP rose from 126.8 percent in 2024 to 128.6 percent in 2025. The growth in EFT transactions is indicative of the increasing use of electronic payments for financial transactions.

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

BOX 1: REFLECTIONS OF THE BANKING ACT, 2023 ON LICENSING REQUIREMENTS FOR BANKS AND DEPOSIT-TAKING INSTITUTIONS

The Banking Act, 2023 (Banking Act), along with supporting regulations, Banking (Deposit-Taking Institutions) Regulations, 2025; and Banking (Appeals Tribunal) Regulations, 2025; which came into effect on 15 August 2025, details the licensing requirements for banks and deposit-taking institutions.

The Banking Act introduced, among others, deposit-taking institutions (DTIs) and categorisation of banks into two tiers. The tiers are differentiated by the amount of the initial capital required, wherein a higher amount is required for tier 1 than for tier 2. The lower amount required for tier 2 banks is intended to support licensing of smaller and medium-sized banks, encourage entry of citizens into the banking industry, and promote beneficial competition.

According to the Banking Act, a person who intends to conduct banking business or engage in deposit-taking should apply to the Bank of Botswana for a relevant licence. An application for a banking or a deposit-taking licence is evaluated by the Bank in accordance with the requirements of the Banking Act and regulations, licensing policy and international standards, including best practices. As provided in the Banking Act, only a company incorporated under the Companies Act (Cap. 42:01) and limited by shares may apply for a licence and carry on the business of a bank or a DTI. Table 1 itemises information that should be submitted when applying for a banking/DTI licence.

The initial minimum capital requirement, an annual licence fee and a non-refundable application fee for different classes of banks, and DTIs are as shown in Table 2. The capital should be without any restriction or encumbrance, and therefore freely available. Further, the applicant should undertake to provide back-up capital needed in stressful banking circumstances, to reduce the probability of a bank run (when all at once, depositors want to withdraw their money from a bank for fear of its collapse and loss of funds).

Table 1: Application Information Pack

1	Application form
2	Letter of comfort by applicant bank's authorised person
3	Principal officers/parent bank/controlling shareholders letter of comfort and consent
4	Consent by home supervisory authority
5	Prospective business plan covering a period of five years
6	Duly completed fit-and-proper application forms for the proposed senior management officials, board members and ultimate beneficial owners comprising the following (a) A notarised copy of the officers' valid passport (for foreign nationals) (b) A certified copy of a national identity card (for Botswana citizens) (c) An up-to-date and detailed curriculum vitae (d) Copies of the officers' academic and professional certificates which should be duly certified where issuing authority is located within the republic of Botswana or notarised if the certificates and other related documents are issued by foreign authorities (e) Completed personal questionnaires for the proposed members of the board of directors and principal officer and senior managers of the bank.) (f) Two passport-size photographs (g) Police clearance report (h) Security-vetting form (to be collected from the central bank).

7	Specimen letter of authorisation for the exchange of information between the Bank of Botswana and the proposed bank's home supervisory authority and/or parent
8	Extract from the minutes of the meeting of the board of directors of the applicant bank
9	Extract from the minutes of the board of directors meeting of the applicant bank's principal, parent bank and/or controlling shareholders
10	Proposed name
11	Nature of business
12	Issued share capital
13	Details of expected shareholding

Source: Banking (Deposit-Taking Institutions) Regulations, 2025.

Table 2: Capital and Fee Requirements for Licence Applications

Category	**Commercial banks**		**Investment banks**	**Discount houses**	**DTIs**
	Tier 1 banks	**Tier 2 banks**			
Initial minimum capital requirement	Greater of P20 000 000 or 12.5 percent of the risk-weighted assets and other risk-weighted exposures of a bank	Greater of P5 000 000 or 12.5 percent of the risk-weighted assets and other risk-weighted exposures of a bank	Greater of P20 000 000 or 12.5 percent of the risk-weighted assets and other risk-weighted exposures of a bank	Greater of P20 000 000 or 12.5 percent of the risk-weighted assets and other risk-weighted exposures of a bank	P2 500 000
Application fee	P15 000	P15 000	P15 000	P15 000	P5 000
Annual licence fee	P50 000	P50 000	P50 000	P50 000	P10 000

Source: Banking (Deposit-Taking Institutions) Regulations, 2025.

CHAPTER 2

PERFORMANCE OF THE BANKING INDUSTRY

CHAPTER 2

PERFORMANCE OF THE BANKING INDUSTRY

COMMERCIAL BANKS

Statement of Financial Position (Balance Sheet)

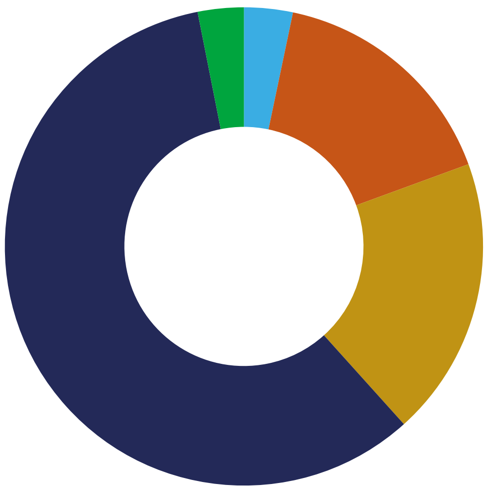
Assets

2.1 Commercial bank total assets increased by 1.8 percent from P144 billion in December 2024 to P146.5 billion in December in 2025, a much slower rate of growth than 7.7 percent in 2024. Customer deposits and shareholder funds, which grew by 3.3 percent and 15.1 percent, respectively, remained the major sources of funding for asset growth. The asset structure of commercial banks was relatively unchanged between 2024 and 2025. Gross loans and advances, being the largest component within the asset structure grew by 3.3 percent (2024:6.5 percent) from P87.1 billion in 2024 to P90 billion in 2025. Meanwhile, the share of placements with other banks and credit institutions was 17.4 percent followed by investment and trading securities, at 17 percent, cash and balances with the central bank and other assets, at 3.2 percent each.

Liabilities

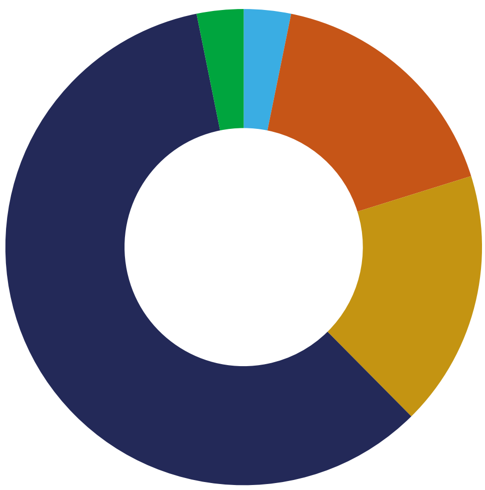
2.2 The liability structure of commercial banks was also relatively unchanged in 2025, customer deposits constituted 76 percent of liabilities, whereas shareholder funds contributed 12 percent of total liabilities; balances due to other banks and credit institutions 5 percent; debt securities and other borrowings 3 percent, and central bank accounts and other liabilities 2 percent each in the same period. The composition of assets and liabilities for 2024 and 2025 is shown in Charts 2.1 and 2.2.

Chart 2.1: Commercial Banks: Composition of Assets: 2024 and 2025 (Percent)



31 December 2024

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

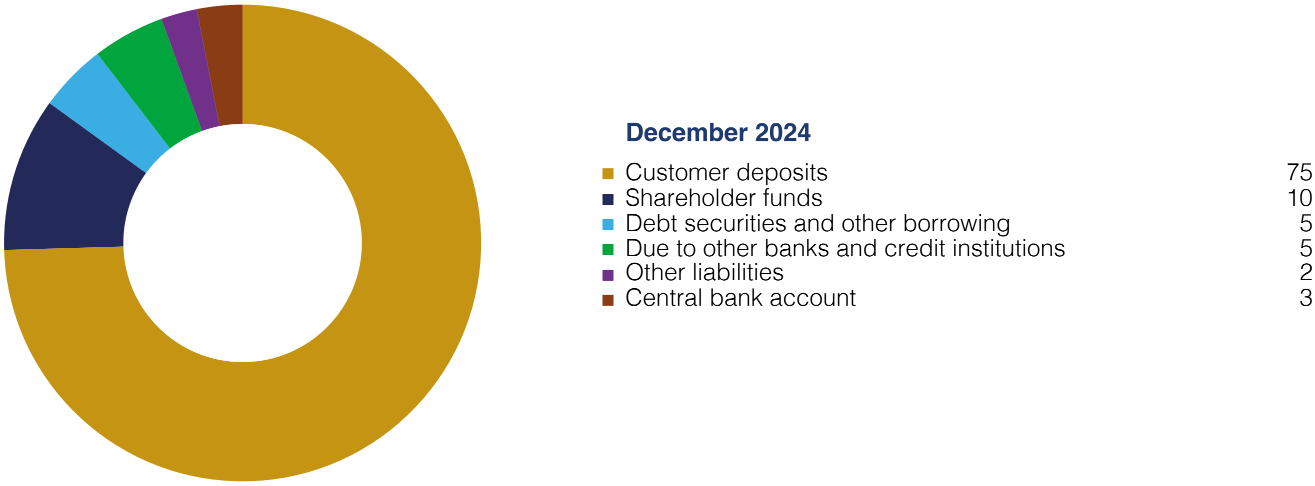


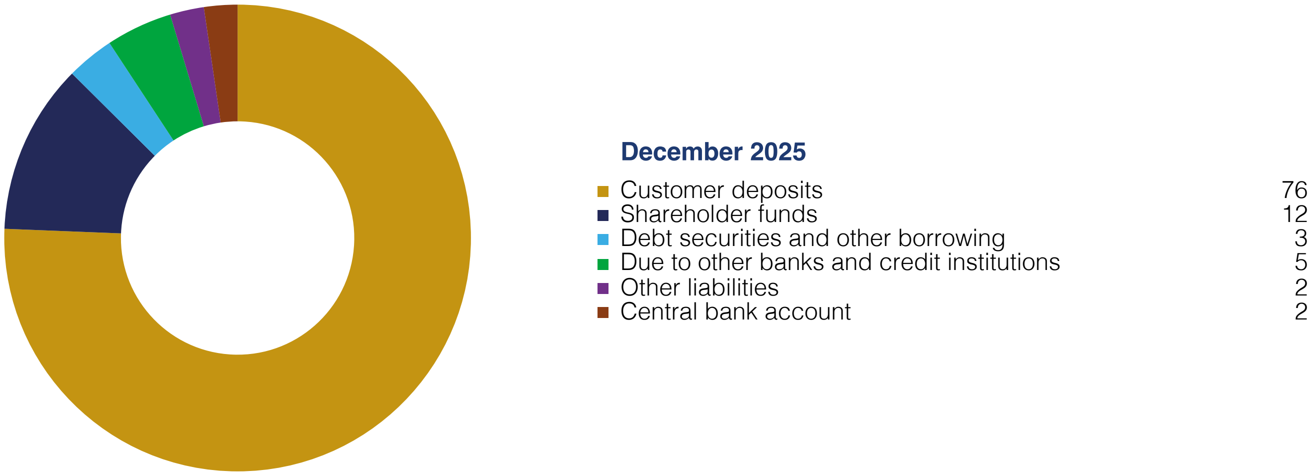
31 December 2025

Cash and balances with the central bank	3
Investment and trading securities	17
Placements with other banks and credit institutions	18
Net loans and advances	59
Other assets	3

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

Chart 2.2: Commercial Banks: Composition of Liabilities: 2024 and 2025 (Percent)

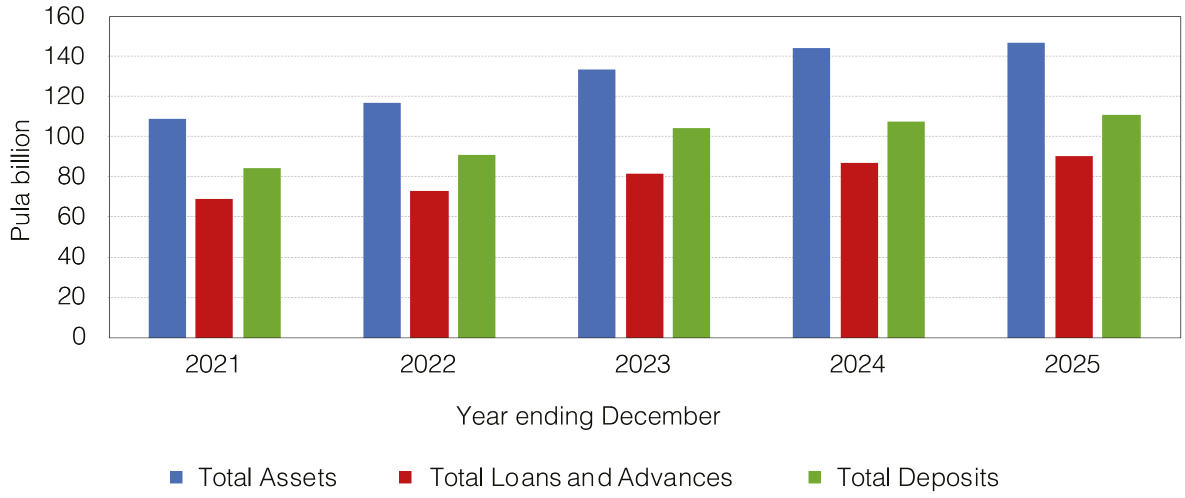




Source: Commercial Banks (Statutory Returns submitted to the Bank).

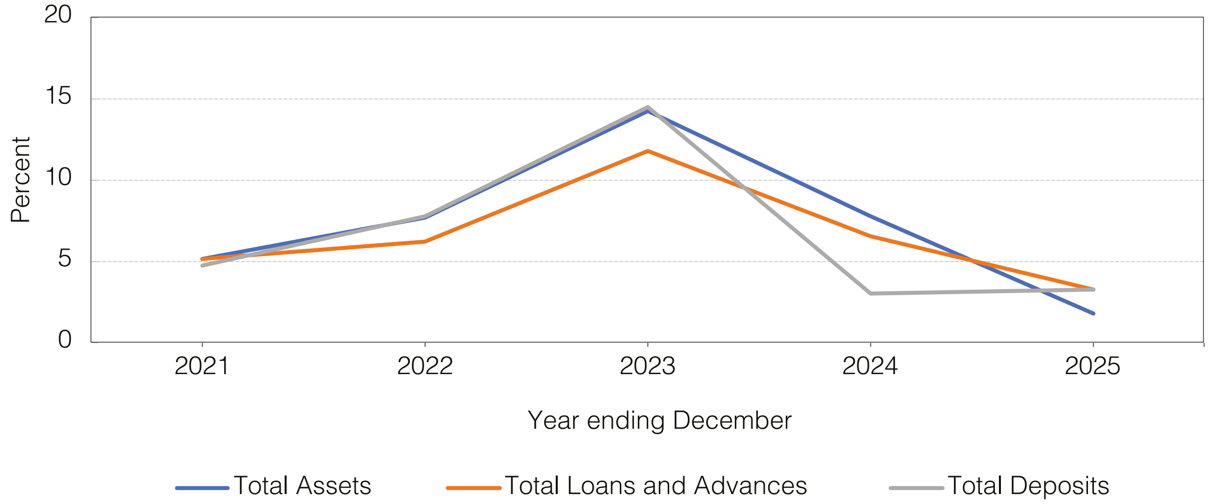
2.3 Chart 2.3 shows the level of assets, loans and advances, and deposits, while Chart 2.4 shows growth rates of total assets, loans and advances, and deposits, for the period 2021–2025. Total assets, loans and advances, and deposits increased at a lower rate in 2025 than in 2024, indicating the unfavourable macroeconomic conditions during the review period.

Chart 2.3: Commercial Banks: Total Assets, Total Loans and Advances, and Total Deposits: 2021–2025 (P billion)



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

Chart 2.4: Commercial Banks: Annual Growth Rates of Total Assets, Total Loans and Advances, and Total Deposits: 2021–2025 (Percent)



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

Riskiness of On-balance Sheet Assets

2.4 Banking business entails trading of risk, hence the requirement for banks to hold sufficient regulatory capital to absorb unexpected losses. The losses may arise from, among others, loan defaults (credit risk); failed internal processes, systems and people (operational risk); and loss in investments due to unfavourable movement in prices (market risk). The level of capital should be commensurate with the risk level assumed.

2.5 In determining credit risk, related assets risk weights are assigned to different categories of a bank's assets to reflect the risk profile of the assets and determine the level of capital required to absorb losses that may arise from these assets. The risk weights, as determined by the regulator, range from zero percent (low-risk asset) to 1 250 percent (high-risk asset). Assets with higher risk weights require higher capital.

2.6 Table 2.1 compares the riskiness of on-balance-sheet assets of banks as at 31 December 2024 and as at 31 December 2025. During 2025, assets risk-weighted at zero, 100 percent and 250 percent increased, while assets with risk weights of 20 percent, 35 percent, 50 percent, 75 percent, 100 percent and 150 percent decreased. On-balance-sheet assets with risk weights of 75 percent (retail portfolio) constituted the highest share of risk-weighted assets, at 30 percent, in 2025, a slight decline from 30.7 percent in 2024, reflecting that retail loans dominated balance sheets of banks.

2.7 Overall, 28 percent of on-balance-sheet asset items were above the 75 percent risk-weight category in 2025, from 26.1 percent in 2024, showing a higher credit risk. Nonetheless, 55.6 percent of on-balance-sheet asset items were in the 75 percent and 100 percent risk-weight categories, signalling that most banks operating in Botswana focus predominantly on retail and corporate loans, which are risk-weighted at 75 percent and 100 percent, respectively.

Table 2.1: Riskiness of Commercial Banks' Portfolios of On-balance Sheet Assets in 2024 and 2025

Risk weights (Percent)	On-balance sheet assets (P million)	On-balance sheet assets to total on-balance sheet assets (percent)	On-balance sheet assets (P million)	On-balance sheet assets to total on-balance sheet assets (percent)
	December 2024		**December 2025**	
0	27 018	18.5	31 319	21.3
20	21 974	15.0	17 596	11.9
35	11 447	7.8	11 284	7.7
50	2 687	1.8	1 653	1.1
75	44 952	30.7	44 191	30.0
100	34 143	23.4	37 736	25.6
150	3 873	2.6	3 450	2.3
250	115	0.1	142	0.1
1250	0	0	0	0
Total	**146 209**	**100**	**147 372**	**100**

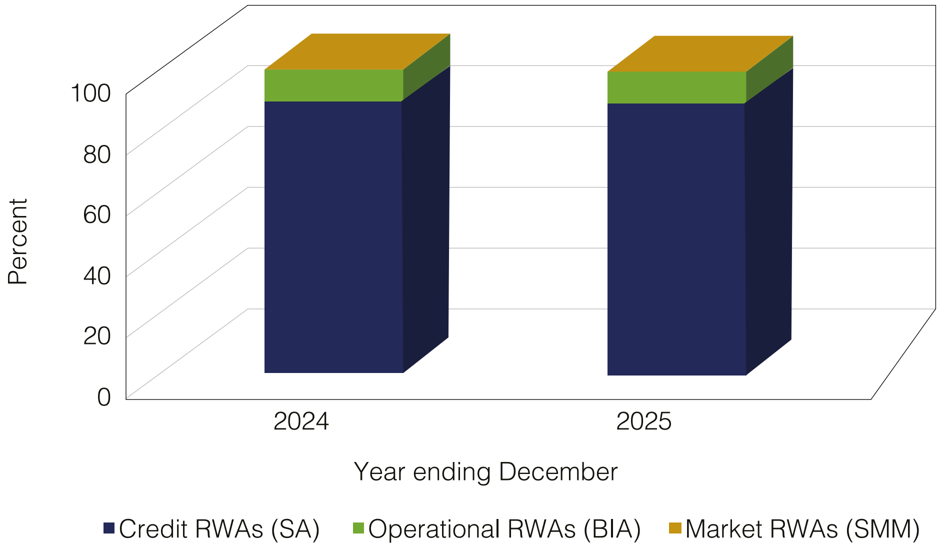
Source: Commercial Banks (Statutory Returns submitted to the Bank).

RISK ASSESSMENT

2.8 Botswana has adopted the Basel II standardised approach (SA) for credit risk, standardised measurement method (SMM) for market risk and a choice between the basic indicator approach (BIA) and standardised approach for operational risk.

2.9 Chart 2.5 illustrates risk-weighted assets (RWAs) of the banking industry by risk weight in 2024 and 2025 as calculated under Pillar 1 of the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana (Basel II Capital Directive). Commercial bank's RWAs rose by 3.5 percent from P95.9 billion in 2024 to P99.2 billion in 2025, reflecting a 3.3 percent increase in loans and advances. In 2025, credit RWAs constituted the highest RWAs of commercial banks, at 87 percent, followed by operational RWAs, at 11 percent, and market RWAs, at 2 percent. Credit RWAs continue to contribute the largest share to total RWAs.

Chart 2.5: Risk-weighted Assets by Approach: 2024 and 2025 (Percent)



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

Credit Risk

Regulatory Capital Requirements on Credit Risk

2.10 Credit RWAs increased by 1.6 percent from P85.1 billion in 2024 to P86.5 billion in 2025, reflecting a growth of 3.3 percent in credit in the same period.

Asset Quality: Levels and Trends

2.11 Total past-due loans (loans in payment arrears) increased by 24.6 percent from P4.2 billion in 2024 to P5.2 billion in 2025. The increase in past-due loans was influenced by the slow economic growth, which resulted in some customers losing employment and, in some instances, closing of businesses, leading to default in servicing loans. Non-performing loans (NPLs) (impaired loans) were constant at P3 billion between 2024 and 2025.

2.12 As at 31 December 2025, the banking industry loans and advances classified as pass, special mention, sub-standard, doubtful and loss loans (see Appendix 5 for definition) constituted 89.9 percent, 6.2 percent, 0.5 percent, one percent and 2.5 percent of total loans and advances, moving from 92.7 percent, 3.5 percent, 0.8 percent, 0.8 percent and 2.2 percent of total loans and advances, respectively, as at 31 December 2024. Special mention loans rose by 78.3 percent from P3.1 billion in 2024 to P5.5 billion in 2025, as banks braced for potential loan defaults because of the unstable economic conditions.

2.13 In 2025, households, private businesses, and financial institutions accounted for 60.5 percent, 39.3 percent, and 0.2 percent, respectively, of NPLs in the banking industry. The NPLs for households were the largest of the three, reflecting the concentration of banks' loan book in households. Public non-financial institutions and non-profit institutions serving households had no NPLs in 2025. Chart 2.6 compares the sectoral distribution of NPLs in 2024 and 2025.

Chart 2.6: Sectoral Distribution of Non-performing Loans and Advances: 2024 and 2025 (Percent)

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

2.14 Table 2.2 presents the sectoral distribution of NPLs for the private business sub-sectors as at the end of December 2025. Trade, restaurants and bars, and business services had the highest proportion of NPLs at 24.9 percent and 23.7 percent, respectively. The level of NPLs from trade, restaurants and bars, and business services sub-sectors, however, declined by 1.4 percent and 17.6 percent, respectively, in the review period, owing to loan recoveries and write-offs of bad loans for the two sub-sectors.

2.15 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: 2021–2025 (Percent)

Private Business	2021	2022	2023	2024	2025
Agriculture, forestry and fishing	7.4	5.4	6.7	6.0	9.2
Mining and quarrying	2.9	3.8	0.8	1.2	2.1
Manufacturing	9.6	9.3	6.3	7.5	6.3
Construction	7.9	5.4	6.1	8.7	8.0
Commercial real estate	12.0	19.0	10.3	6.4	4.5
Electricity	0.6	0.8	0.8	0.7	1.0
Water	0.0	0.0	0.0	0.0	0.0
Telecommunications	0.1	0.3	0.3	0.2	0.2
Tourism and hotels	12.4	16.9	11.4	9.2	11.8
Transport	4.3	4.0	7.2	5.1	5.3
Trade, restaurants and bars	14.4	10.0	16.7	23.9	24.9
Business services	23.4	19.9	20.8	27.3	23.7
Other community, social and personal services	4.8	5.3	12.5	3.7	3.0
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: 2021–2025

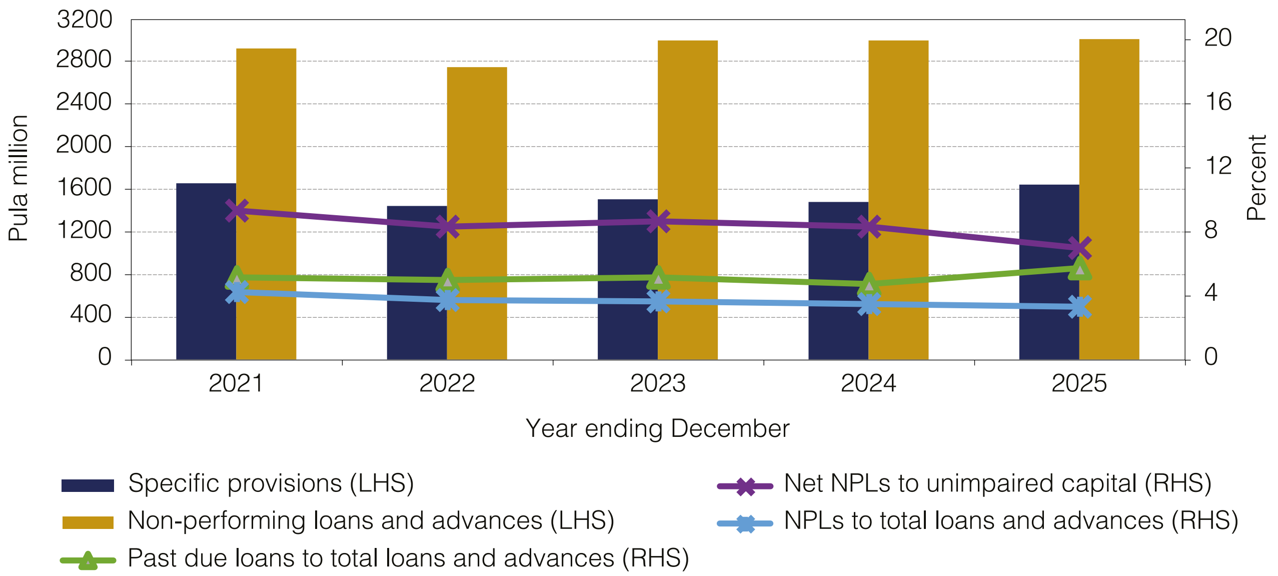
	2021	2022	2023	2024	2025
P million					
Gross loans and advances	68 920	73 195	81 797	82 127	89 990
Non-performing loans (NPLs)	2 922	2 746	3 001	3 001	3 014
Specific provisions	1 654	1 437	1 510	1 479	1 645
Percent					
NPLs to gross loans and advances	4.2	3.8	3.7	3.4	3.3
Specific provisions to NPLs	56.6	52.3	50.3	49.3	54.6

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

2.16 The asset quality of the banking sector marginally improved, as the ratio of NPLs to gross loans and advances declined from 3.4 percent in 2024 to 3.3 percent in 2025. Similarly, the capacity of capital to withstand losses arising from NPLs also marginally improved, as net NPLs (net of specific provisions) to unimpaired capital declined from 8.3 percent in 2024 to 7 percent in 2025. Specific provisions for the banking industry increased by 11.3 percent from P1.5 billion in 2024 to P1.6 billion in 2025, resulting in an increase in the specific provisions to NPLs ratio from 49.3 percent in 2024 to 54.6 percent in 2025.

2.17 Chart 2.7 shows trends in the commercial bank asset-quality indicators for the period 2021–2025.

Chart 2.7: Commercial Banks: Asset Quality Indicators: 2021–2025

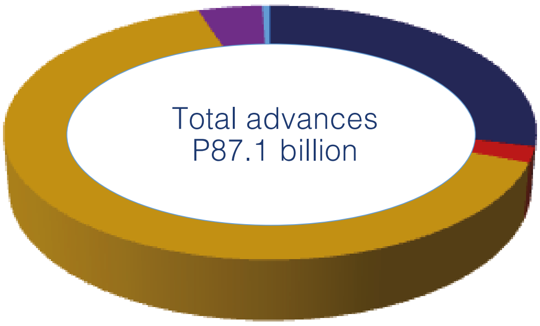


Source: Commercial Banks (Statutory Returns submitted to the Bank).

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

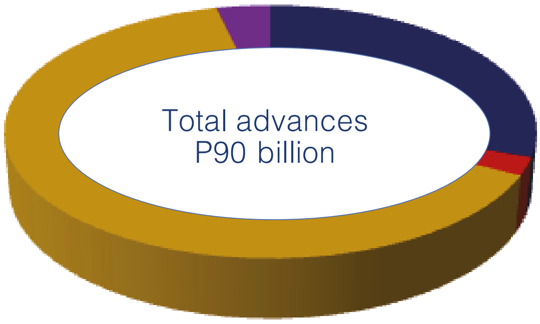
2.18 Household credit, which constituted 63.3 percent of gross loans and advances of the banking industry rose by 2.6 percent, from P55.8 billion in December 2024 to P57.2 billion in December 2025, while credit to private businesses increased by 7.6 percent from P25.3 billion in 2024 to P27.2 billion in 2025. Similarly, credit to public sector entities increased by 17.1 percent from P1.7 billion to P2 billion in the same period. Chart 2.8 compares the sectoral distribution of loans and advances between 2024 and 2025.

Chart 2.8: Sectoral Distribution of Loans and Advances: 2024 and 2025 (Percent)



31 December 2024

Private businesses	29
Public sector entities	2
Household sector	64
Financial institutions	4
Non-residents	1



31 December 2025

Private businesses	30
Public sector entities	2
Household sector	64
Financial institutions	4

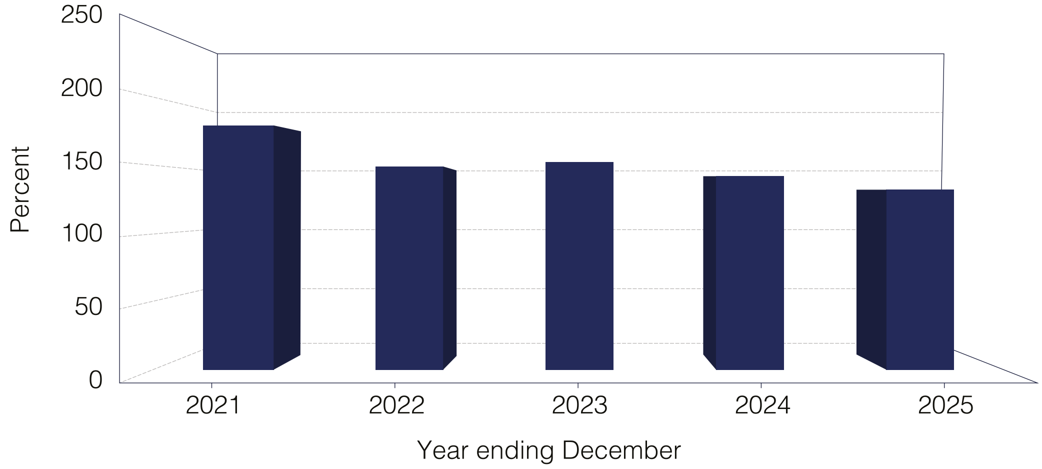
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Large Exposures

2.19 Large exposures[10] of commercial banks were unchanged, at P26 billion, between 2024 and 2025. The ratio of large exposures to unimpaired capital fell from 142.4 percent in 2024 to 132 percent in 2025, thus below the 800 percent maximum prudential limit (Chart 2.9), indicating a generally low credit concentration risk in the industry. The ratio varied across banks, ranging from zero to 562 percent, consistent with the pattern observed in the previous year.

[10] 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: 2021–2025 (Percent)



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

Loans to Directors and Related Parties

2.20 Consistent with the provisions of the Guidelines on Transactions with Related Persons of a Bank, banks are required to issue credit to related parties on an arm's length basis. The arrangement is intended to manage credit risk, mitigate potential abuse and minimise conflict of interest that could arise from transactions between a bank and its related parties[11] (companies and individuals). The exposures are disclosed and monitored to ensure that there is no abuse by related parties. Related-party exposures increased by 22.9 percent from P733.8 million in 2024 to P901.9 million in 2025; consequently, the ratio of loans to related parties to unimpaired capital increased from 4 percent to 4.6 percent in the same period. Although loans to related parties increased significantly, the proportion of those loans to unimpaired capital remained insignificant, indicating that insider loans were not a material source of credit risk to the banking industry.

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

Foreign Currency Denominated Loans and Liabilities

2.21 The amount of loans denominated in foreign currency (FC) was constant at P3.6 billion between 2024 and 2025 and constituted 4 percent of the industry's total loans and advances. The increase in foreign currency-denominated loans was due to a demand for foreign currency-denominated loans by the transport, and business services sub-sectors.

2.22 On the other hand, foreign currency-denominated deposits increased by 1.1 percent from P23.4 billion in 2024 to P23.6 billion in 2025. The ratio of foreign currency-denominated loans to foreign currency-denominated deposits fell marginally from 15.5 percent in 2024 to 15.3 percent in 2025; the ratio ranged across the banking industry from 1.2 percent to 43.3 percent, indicative of prudent management of foreign-exchange risk by banks. Foreign currency-denominated deposits continued to be more than foreign currency-denominated loans, an indication that the banking industry has surplus liquidity held in foreign exchange, which also provides a hedging mechanism, as foreign currency-denominated deposits are also used to hedge against exchange-rate risk.

The Structure of Private Business Loans and Advances

2.23 Table 2.4 shows the sectoral distribution of private business loans and advances for the period 2021–2025. The market share of manufacturing, electricity, transport and business services loans and advances increased, whereas that of agriculture; mining and quarrying; commercial real estate; tourism and hotels; trade, restaurants and bars; and other, decreased between 2024 and 2025. Meanwhile, the market share of construction and telecommunication was constant between 2024 and 2025.

Table 2.4: Sectoral Distribution of Private Business Loans: 2021–2025 (Percent)

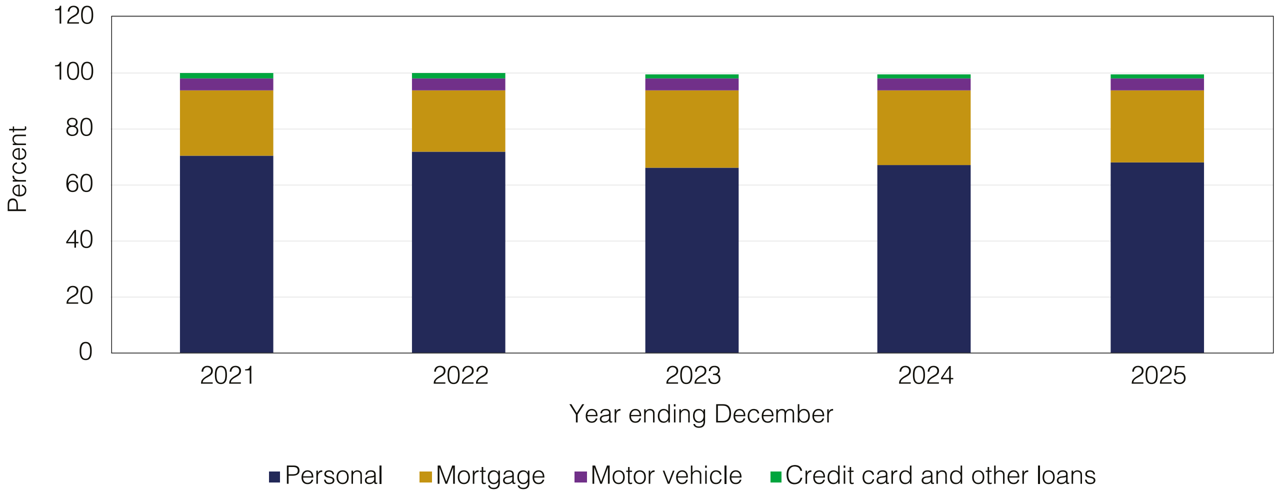
Private business sector loans	2021	2022	2023	2024	2025
Agriculture, forestry and fishing	7	8	8	8	7
Mining and quarrying	2	2	2	3	2
Manufacturing	8	8	6	7	8
Construction	5	5	4	5	5
Commercial real estate	25	26	27	23	22
Electricity	-	1	1	2	5
Telecommunications	1	1	1	2	2
Tourism and hotels	6	4	5	5	4
Transport	2	2	3	3	4
Trade, restaurants and bars	21	20	20	20	19
Business services	19	18	17	16	17
Other	4	7	5	6	5

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

Composition of Household Loans and Advances

2.24 Loans and advances to the household sector increased by 2.6 percent from P55.8 billion in 2024 to P57.2 billion in 2025. The loans comprised personal (68 percent), mortgage (26 percent), motor vehicle (4 percent), credit card and other loans (2 percent) (Chart 2.10). Personal loans increased by 3.8 percent from P37.4 billion in 2024 to P38.9 billion in 2025.

Chart 2.10: The Distribution of Household Loans and Advances by Purpose: 2021–2025 (Percent)



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

2.25 Given the above, the composite credit risk for the banking industry was assessed to be moderate, while the inherent credit risk is likely to increase over the next 12 months owing to continuance of moderate economic performance and low growth in personal incomes.

Market Risk

Regulatory Capital Requirements on Market Risk

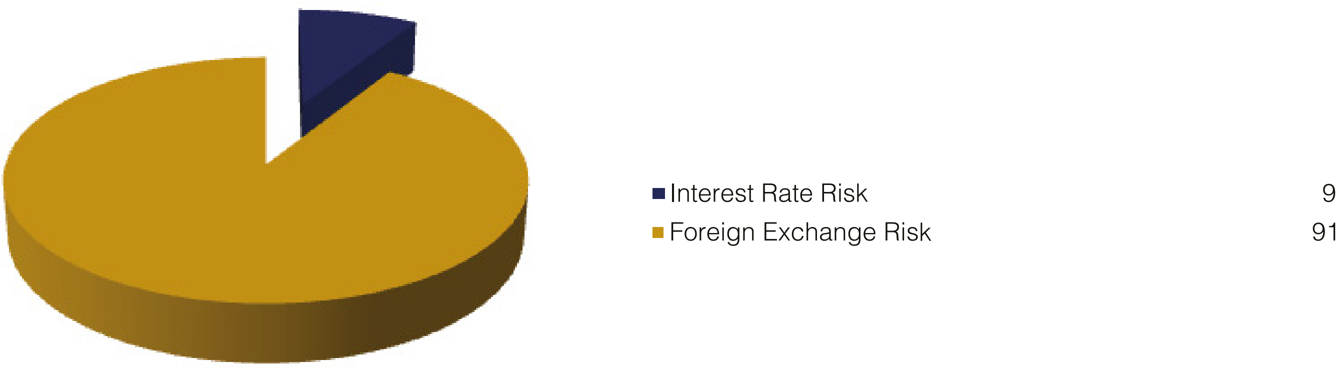
2.26 Market RWAs rose by 105.3 percent from P778.4 million in 2024 to P1.6 billion in 2025 (Table 2.5). Regulatory capital requirement for market risk also rose from P116.2 million in 2024 to P238.5 million in 2025. The growth in market-risk weighted assets was a result of the increase in foreign exchange transactions at some banks. In addition, one bank established a treasury department and began foreign-currency trading, thus contributing to the increased market-risk-weighted assets. Within market-risk capital, foreign-exchange risk accounted for 91.2 percent, while interest-rate risk accounted for 8.8 percent (Chart 2.11). The share of total risk-weighted assets attributable to market risk was 1.6 percent of RWAs.

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

	2024		2025	
	P million	Percent	P million	Percent
Interest rate risk	20.8	17.9	21	8.8
Foreign exchange risk	95.3	82.1	217.5	91.2
Total Pillar 1 market risk capital requirements	116.2		238.5	
Market risk-weighted assets	778.4		1 597.9	

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

Chart 2.11: Composition of Market Risk Regulatory Capital: 31 December 2025 (Percent)



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

Foreign Currency Risk

2.27 All banks complied with the Foreign Currency Exposure Directive No. BoBA 1/99, by maintaining the foreign-currency exposure to unimpaired capital ratios within the required 15 percent, 5 percent and 30 percent limits for major, minor and overall foreign-currency exposures, respectively. The overall foreign-currency exposure to total unimpaired capital ratio for the banking industry increased to 16.2 percent in 2025 from 8.5 percent in 2024.

2.28 For commercial banks, nostro balances (due from foreign banks) decreased from P22.8 billion in 2024 to P21.1 billion in 2025, while vostro balances (due to foreign banks) fell from P2.9 billion to P2.1 billion in the same period. The net exposure of balances held outside Botswana was 13 percent of banking assets. While these accounts are crucial in facilitating international trade, banks are required to maintain robust risk-management systems to mitigate risks, such as market, liquidity, credit and country risk.

Interest Rate Risk

2.29 Except for assets and liabilities of maturities 1–3 and 6–12 months, the gap between interest rate-sensitive assets and interest rate-sensitive liabilities for the banking industry was positive, implying that a bank's revenue would increase in response to a rise in interest rates (Table 2.6). Meanwhile, 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, resulting in 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 2025 (P million)

Maturity	Total variable rate assets	Total variable rate liabilities	Variable gap
Up to 1 month	63 871	39 086	24 785
1–3 months	641	2 368	(1 728)
Over 3–6 months	5 124	525	4 599
Over 6–12 months	601	1 016	(415)
Over 12 months –3 years	4 464	235	4 229
Over 3–5 years	8 130	175	7 954
Over 5–10 years	6 351	874	5 476
More than 10 years	2 906	52	2 855
Total	**92 087**	**44 332**	**47 754**

Note: Parentheses denote negative figures.

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

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

Operational Risk

Regulatory Capital Requirements for Operational Risk

2.31 Operational RWAs rose by 11.2 percent from P10 billion in 2024 to P11.1 billion in 2025, corresponding with the operational capital charge, which increased from P1.5 billion to P1.7 billion in the same period (Table 2.7).

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

	2024	2025
Operational risk capital charge: BIA	1 470	1 660
Operational risk-weighted assets	9 996	11 120

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

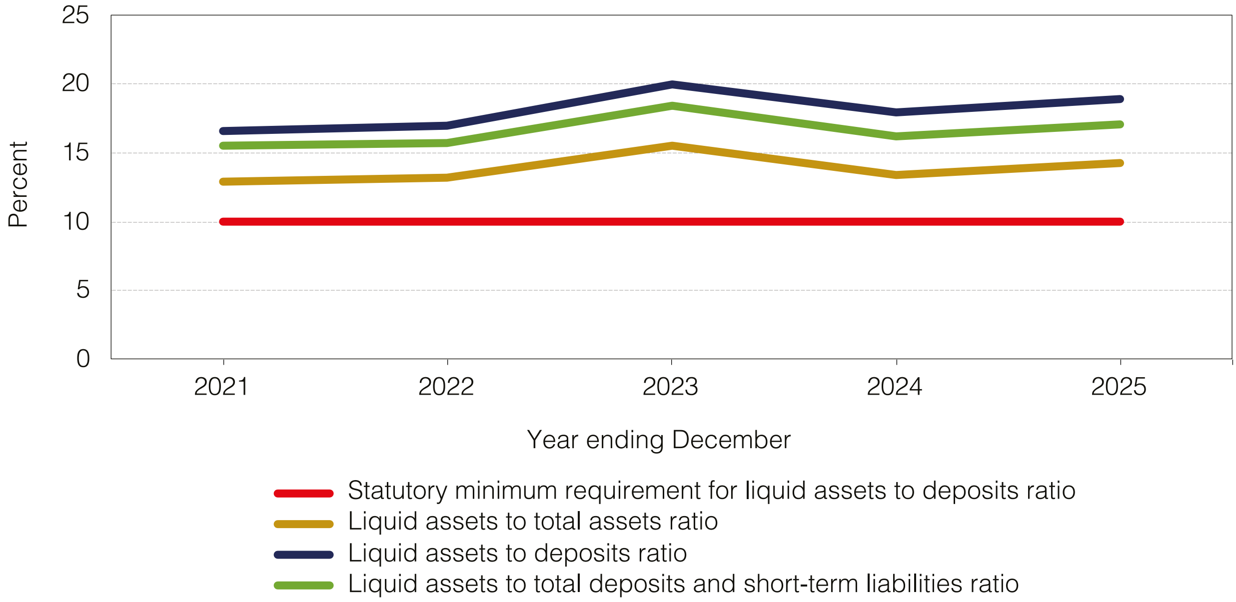
Operational Risk Exposure

2.32 Operational risk is expected to remain high owing to such vagaries as cybersecurity threats, technological disruptions, fraud, and reliance on services provided by third parties. Internal control weaknesses, including the use of outdated systems, manual intervention and inadequate fraud detection mechanisms could also expose banks to a financial loss.

Liquidity and Funding Risk

2.33 Statutory liquid assets of commercial banks grew by 8.7 percent from P19.2 billion in 2024 to P20.9 billion in 2025. The ratio of average liquid assets of commercial banks to deposit (LAR) increased marginally from 17.9 percent in 2024 to 18.9 percent in 2025 and remained above the 10 percent prudential minimum. The ratio across banks ranged between 15.9 percent and 26.4 percent.

Chart 2.12: Commercial Banks: Liquidity Ratios: 2021–2025 (Percent)



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

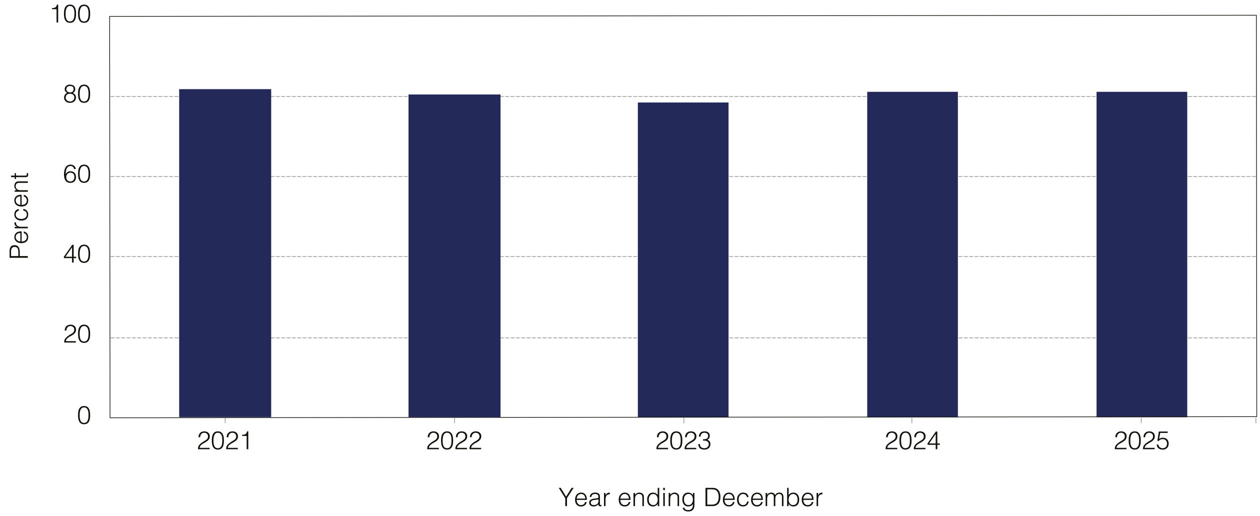
2.34 Treasury bills constituted a significant proportion of liquid assets, at 46.8 percent, as banks took advantage of increased yield at the shorter end of government securities, which also qualify as liquid assets. The other components of liquid assets included balances due from domestic banks (20.1 percent), balances due from Bank of Botswana (11.3 percent), notes and coin (11 percent), Bank of Botswana Certificates (BoBCs) (7.7 percent) and other liquid assets (3 percent). Treasury bills grew by 21 percent from P8.1 billion in 2024 to P9.8 billion in 2025. On the other hand, BoBCs increased by 79.9 percent from P894.7 million in 2024 to P1.6 billion in 2025, given the increase in liquidity towards the end of the year.

2.35 Liquidity risk is expected to remain high owing to prevailing market liquidity pressures. Funding concentration risk is prevalent at most banks, as volatile and expensive corporate deposits form a significant portion of the industry funding base. The reduction in government spending associated with low proceeds from diamond sales and prevailing domestic and global economic conditions will continue to negatively affect market liquidity. Further, the continued reliance by the government on the bond programme to fund the budget deficit through issuance of government bonds is expected to further constrain liquidity within the banking industry.

Financial Intermediation

2.36 The financial intermediation ratio of commercial banks (loans and advances to deposits) was slightly above the recommended range of 50–80 percent at 81.2 percent in 2025 (Chart 2.13). Across banks, the ratio ranged between 59.1 percent and 103.8 percent.

Chart 2.13: Commercial Banks: Loans and Advances to Deposits Ratio (Financial Intermediation): 2021–2025 (Percent)



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

Liabilities and Funding Structure

2.37 The funding structure of banks has been unchanged over the years, reflecting their core business of lending financed largely by customer deposits, followed by share capital, debt securities and other borrowings, and balances due to other banks. Customer deposits, which constituted 75.6 percent of total liabilities increased by 3.3 percent from P107.3 billion in 2024 to P110.8 billion in 2025. Share capital accounted for 11.8 percent of liabilities and increased by 15.1 percent from P15 billion in 2024 to P17.3 billion in 2025. The rest of funding sources for banks were balances due to other banks, debt securities and other borrowings, and other liabilities, which accounted for 4.6 percent, 3.3 percent and 5.5 percent of total liabilities, respectively.

Table 2.8: Sources of funding for commercial banks: 2021–2025.

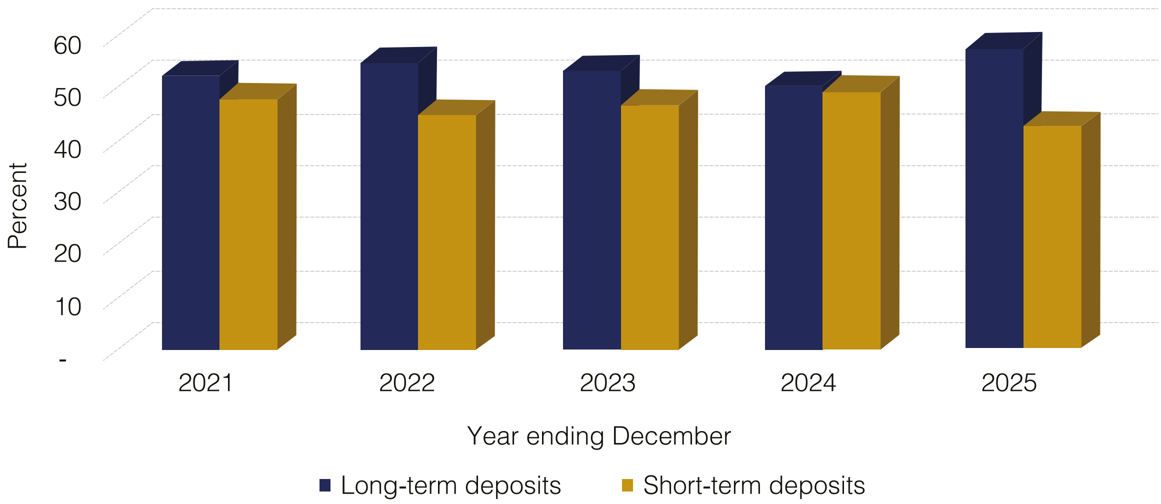
Sources of funding	2021	2022	2023	2024	2025
Deposits (P million)	84 364	90 927	104 127	107 239	110 785
Annual growth rate (percent)	4.7	7.8	14.5	3.0	3.3
Share in total funding	77.7	77.7	77.9	74.5	75.6
Shareholder funds (P million)	10 756	12 587	14 074	15 034	17 307
Annual growth rate (percent)	(4.8)	17.0	11.8	6.8	15.1
Share in total funding	9.9	11.4	10.5	10.4	11.8
Debt securities and other borrowings (P million)	6 162	5 481	5 886	6 625	4 836
Annual growth rate (percent)	10.2	(11.1)	7.4	12.6	(27)
Share in total funding	5.7	4.7	4.4	4.6	3.3
Due to other banks (P million)	3 999	5 221	6 151	7 030	6 716
Annual growth rate (percent)	32.3	30.6	17.8	14.3	(4.5)
Share in total funding	3.7	4.5	4.6	4.9	4.6
Other liabilities (P million)	3 310	2 733	3 355	7 535	6 839
Annual growth rate (percent)	20	(17.5)	22.7	124.6	(14)
Share in total funding	3	3.5	2.5	5.2	4.7
Total Funding (P million)	**108 591**	**116 949**	**133 593**	**143 955**	**146 483**

Note: Parentheses denote negative figures.

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

2.38 Deposits by maturity for 2021–2025 are shown in Chart 2.14. Relative shares of deposits by maturity changed between 2024 and 2025; long-term deposits (time and savings) accounted for 57 percent and short-term deposits (call and current) for 43 percent of total deposits in 2025 compared with 50 percent each, respectively, in 2024, reflecting the impact of a high interest-rate environment, which influenced customers to substitute short-term deposits for long-term deposits to earn interest income.

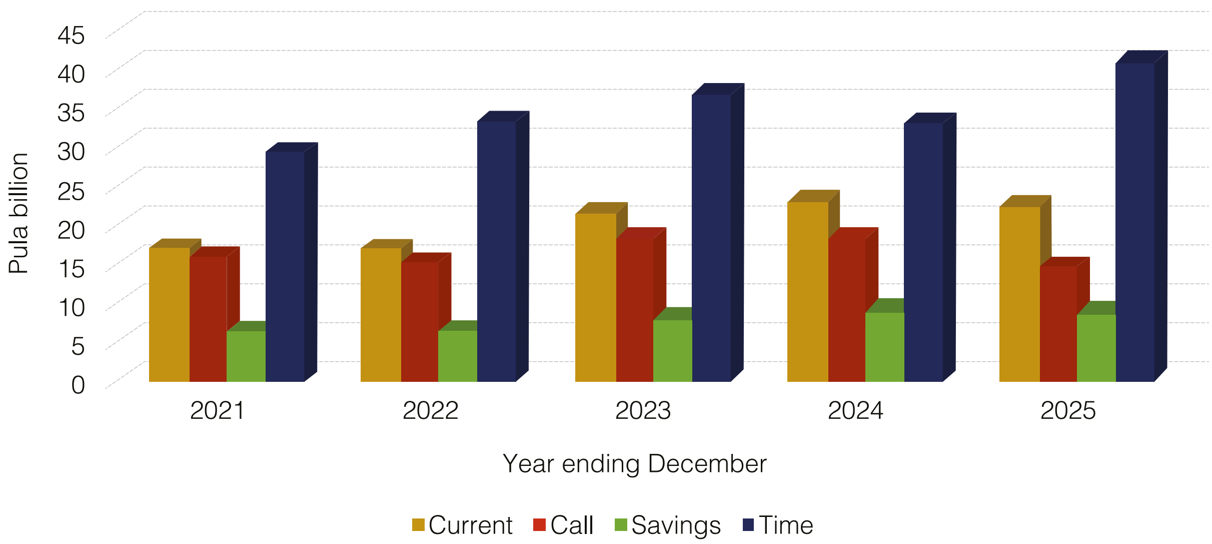
Chart 2.14: Commercial Banks: Deposits Type by Maturity: 2021–2025 (Percent)



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

2.39 Chart 2.15 shows the value of Pula-denominated deposits by type for the period 2021 to 2025. Call, savings and current deposits decreased by 20.7 percent, 4.6 percent and 2.6 percent, respectively, in 2025. In contrast, time deposits grew by 24.4 percent in the same period from P33.1 billion to P41.1 billion, possibly owing to attractive interest rates as banks competed for deposits. With respect to type-of-deposit shares in total deposits, fixed deposits accounted for the largest proportion (47.2 percent), followed by current deposits (25.9 percent), call deposits (16.7 percent) and savings deposits (10.2 percent). This structure portends increasingly risky and high cost of funding in an environment of constrained and unevenly distributed liquidity.

Chart 2.15: Commercial Banks: Share of Pula-denominated Deposits by Type: 2021–2025 (Pula billion)



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

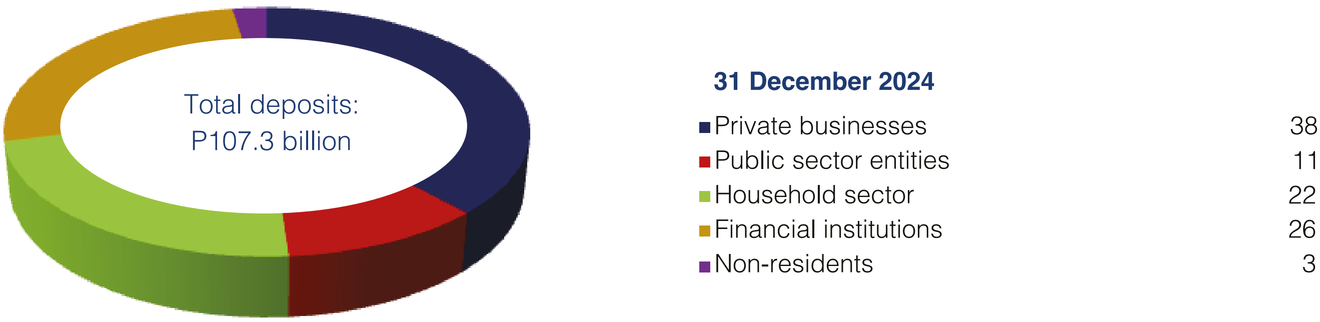
2.40 Chart 2.16 shows the value of foreign currency-denominated deposits by type for 2021 to 2025. Foreign currency-denominated deposits marginally increased by 1.1 percent from P23.4 billion in 2024 to P23.6 billion in 2025.

Chart 2.16: Commercial Banks: Share of Foreign Currency and Pula-denominated Deposits to Total Deposits: 2024 and 2025 (Percent)

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

2.41 Chart 2.17 on sectoral deposits shows that the share of private businesses in total customer deposits continued to be the largest, at 40 percent, in 2025. The respective shares of deposits of financial institutions and households in total customer deposits was 26 percent and 23 percent; public sector entities and non-residents deposits constituted 9 percent and one percent, respectively.

Chart 2.17: Commercial Banks: Sectoral Distribution of Deposits: 2024 and 2025 (Percent)



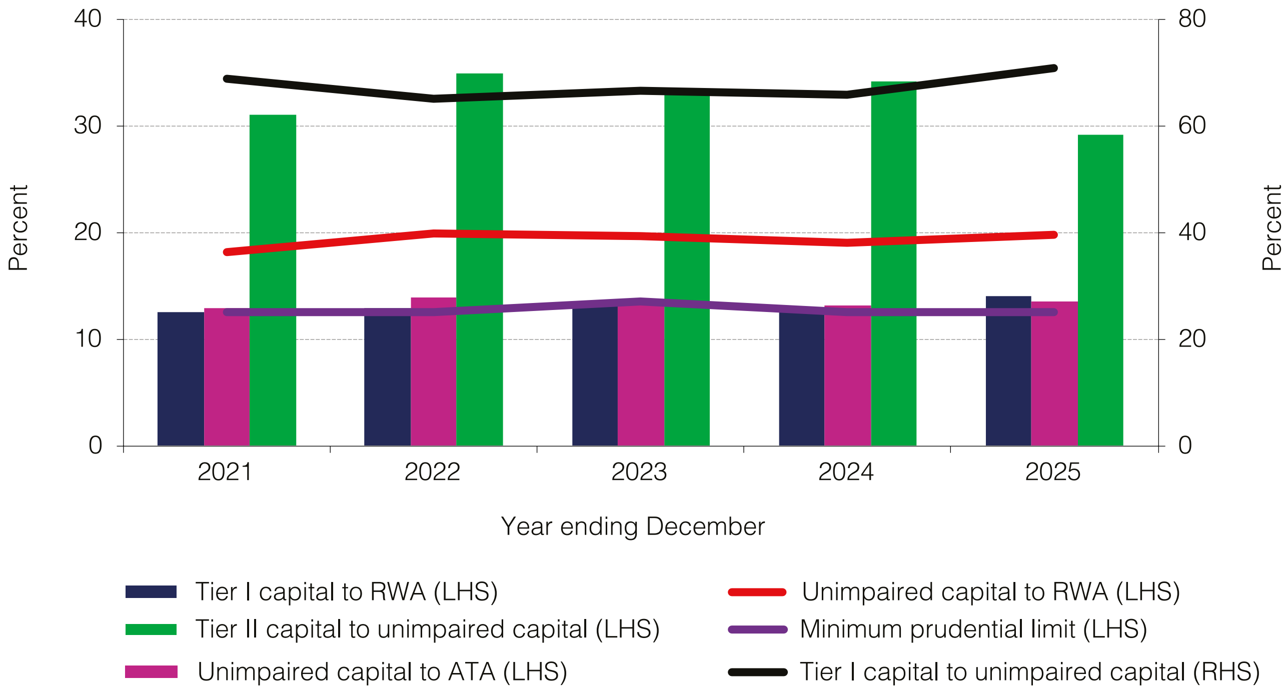
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Capital Adequacy (Solvency): Level, Quality and Trend

2.42 Unimpaired capital for commercial banks grew by 7.4 percent from P18.3 billion in 2024 to P19.7 billion in 2025. Despite the growth, four banks reported a fall in unimpaired capital. The decline in unimpaired capital at those banks was because of the decline in profit or the redemption of Tier 2 instruments in the same year. Similarly, total RWAs for banks increased by 3.5 percent from P95.9 billion in 2024 to P99.2 billion in 2025. Commercial banks were adequately capitalised and complied with the minimum statutory and prudential requirements in 2025. 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. The banking industry capital adequacy ratio (CAR) increased from 19.1 percent in 2024 to 19.8 percent in 2025. The CAR for commercial banks indicates the industry's loss-absorbency capacity and ability to support business expansion. Chart 2.18 shows CAR for the five years, 2021 to 2025.

2.43 Tier 1 capital constituted 70.8 percent of unimpaired capital, an indication of a strong and high-quality capital base for commercial banks. Tier 1 capital increased by 15.6 percent from P12 billion in 2024 to P13.9 billion in 2025. The Tier 1 capital increase was largely driven by reclassification of unpublished profits from Tier 2 to Tier 1. A larger amount of Tier 1 capital was retained earnings, at 83.2 percent, followed by ordinary shares at 13.4 percent. As a proportion of risk-weighted assets, common equity Tier 1 capital remained above the 4.5 percent prudential minimum, at 14 percent in 2025, from 12.6 percent in 2024.

Chart 2.18: Commercial Banks: Capital Ratios: 2021–2025



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

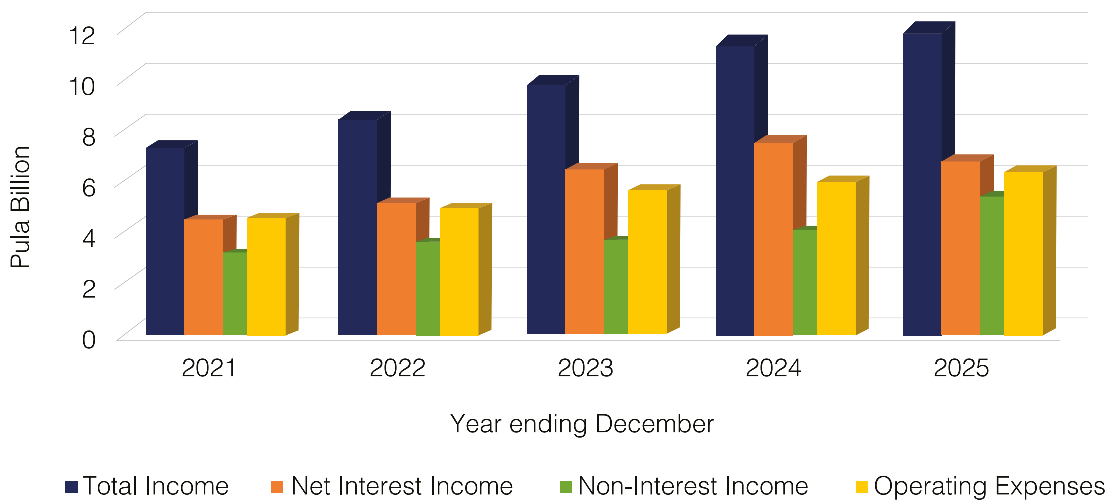
2.44 Tier 2 capital of commercial banks fell by 8.4 percent from P6.3 billion in 2024 to P5.7 billion in 2025. The main components of Tier 2 capital were current year unpublished profits at 51.4 percent and subordinated term debt at 28.6 percent. The ratio of Tier 2 capital to unimpaired capital decreased from 34.2 percent in 2024 to 29.2 percent in 2025. Six of the nine banks paid dividends in 2025.

Commercial Banks' Statement of Comprehensive Income and Expenses

Income

2.45 Commercial bank's total income, comprising net interest and non-interest income, increased by 4.7 percent from P11.4 billion in the 12 months to December 2024 to P11.9 billion in the corresponding period in 2025 (Chart 2.19). This growth was primarily driven by a 33.7 percent expansion in non-interest income from P3.9 billion to P5.2 billion in the same period. The higher level of non-interest income was generated mainly from fee and commission income from increased transactional volumes on digital platforms and an increase in foreign-exchange transaction volumes and activity; consequently, the proportion of non-interest income to total income rose from 34.3 percent in the 12 months to December 2024 to 43.8 percent in the corresponding period in 2025. In contrast, net-interest income declined by 10.4 percent from P7.5 billion in the 12 months to December 2024 to P6.7 billion in the corresponding period in 2025 owing to the increase in the cost of funding emanating from the shortage of liquidity in the market, which drove interest expenses high. As a result, the proportion of net-interest income to total income decreased from 65.7 percent to 56.2 percent in the same period.

Chart 2.19: Commercial Banks: Composition of Income and Expense: 2021–2025 (P billion)



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

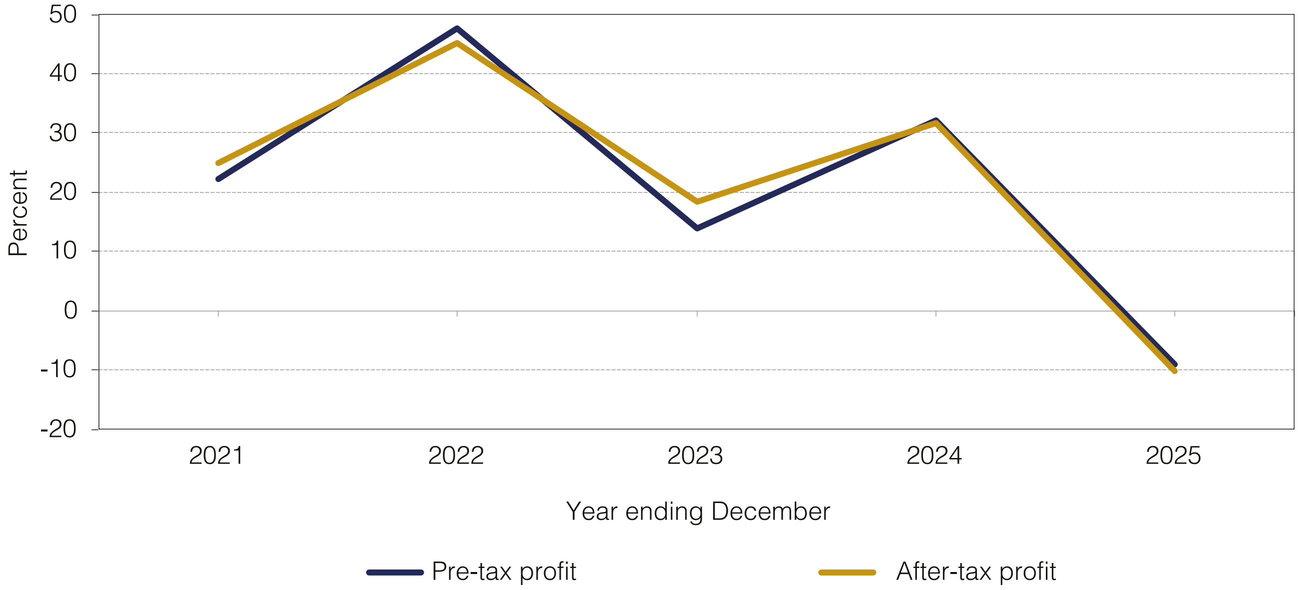
Expenses

2.46 Total expenses for commercial banks increased by 23.1 percent from P9.2 billion in the 12 months to December 2024 to P11.4 billion in the corresponding period in 2025. Operating expense constituted 54.9 percent of the total, while the share of the interest expense was 45.1 percent. Interest expense rose by 52 percent from P3.4 billion in the 12 months to December 2024 to P5.1 billion in the corresponding period in 2025. The growth in interest expense was influenced by an increase of 2.9 percent in interest-bearing deposits in 2025, which has had a higher share in total funding. Similarly, operating expenses increased by 6.4 percent in the 12 months to December 2024 from P5.9 billion to P6.2 billion in the corresponding period in 2025 (Chart 2.20). Staff cost accounted for a significant proportion of operating costs, at 46.5 percent, followed by administration and other expenditure, at 32.7 percent, other expenses (audit and consulting fees, and occupancy and depreciation), at 11.9 percent, and legal and management fees, at 9 percent.

Profitability: Level, Source and Trend

2.47 Net after-tax profit of commercial banks declined by 10.1 percent from P4.1 billion in the year to December 2024 to P3.7 billion in the corresponding period in 2025 (Chart 2.20), the first decrease since the fall of 17.5 percent in after-tax profit in 2020. The decrease in profits was attributable to a 52 percent increase in interest expense from P3.4 billion in the 12 months to December 2024 to P5.1 billion in the corresponding period in 2025. All banks reported positive net after-tax profit, except for one bank, which made a loss of P104.9 million.

Chart 2.20: Commercial Banks: Growth Rates of Pre- and After-tax Profit: 2021–2025 (Percent)



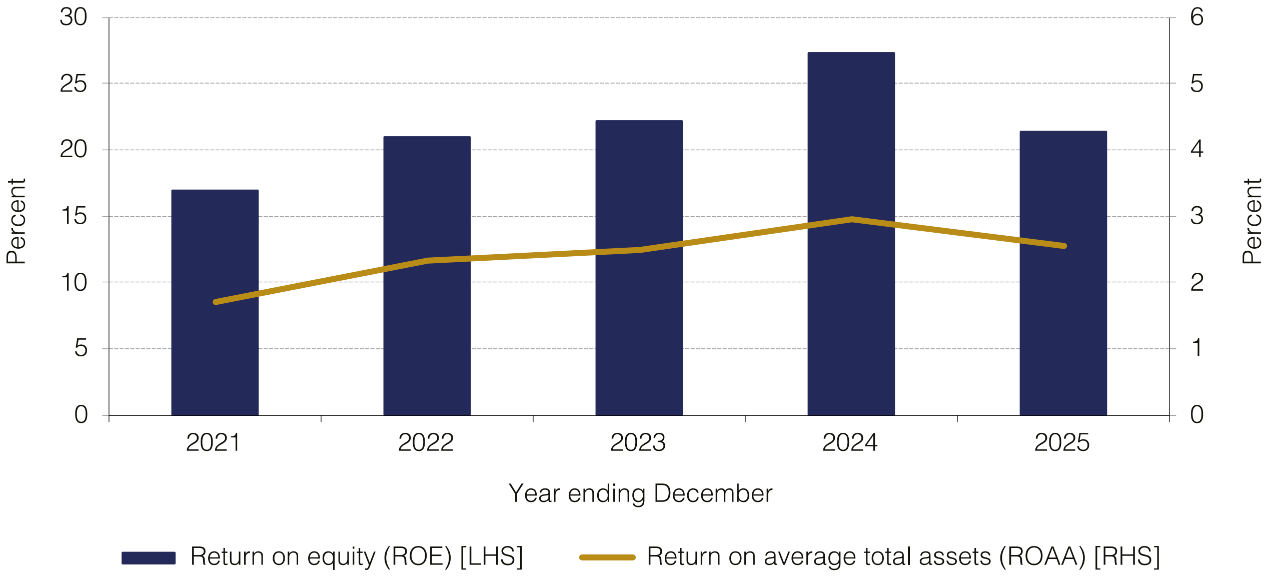
Source: Commercial Banks (Statutory Returns submitted to the Bank).

Profitability and Operating Efficiency Indicators

Profitability Indicators

2.48 Consistent with the decline in after-tax profit of commercial banks, the return on equity (RoE) and return on average assets (RoAA) fell from 27.3 percent and 3 percent in the year to December 2024 to 21.3 percent and 2.5 percent, respectively, in the corresponding period in 2025 (Chart 2.21). For individual banks, RoE ranged between -25.1 percent and 30.8 percent while RoAA ranged from -1.9 percent to 4.2 percent in the review period.

Chart 2.21: Commercial Banks: Profitability Indicators: 2021–2025 (Percent)



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

2.49 Table 2.9 shows financial performance indicators for commercial banks for the five-year period, 2021–2025.

Table 2.9: Financial Performance Ratios: 2021–2025 (Percent)

Financial Performance Ratios	2021	2022	2023	2024	2025
Income on investments and securities to total income	6.5	6.3	10.3	9.2	11.1
Non-interest income to total income	40.5	40.4	35.3	34.3	43.8
Net interest income to total income	59.5	59.6	64.7	65.7	56.2
Return on equity	16.9	21.0	22.2	27.3	21.3
Return on average assets	1.7	2.3	2.5	3.0	2.5
Net interest income to average total assets	4.1	4.4	5.1	5.4	4.6
Interest income to average earning assets	6.4	6.8	8.6	8.5	8.6
Non-interest income to average total assets	2.8	3.0	2.8	2.8	3.6
Interest expense to average total assets	1.8	2.4	2.8	2.4	3.5
Earnings retention	17.3*	80.6	79.7	72.1	89.6
Interest income on loans to average total assets	5.2	5.9	6.3	6.1	6.4
Non-interest expense to average total assets	4.1	4.2	4.4	4.2	4.3
Gross interest income to average total assets	5.9	6.8	7.9	7.8	8.1

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

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

Operating Efficiency Indicators

2.50 The average cost-to-income ratio for commercial banks increased from 51.6 percent in the 12 months to December 2024 to 52.4 percent in the year to December 2025. Three banks, however, exceeded the 50–60 percent cost-to-income ratio, reflecting weaker operational efficiency at the respective banks. The trend of efficiency measures for commercial banks for 2021–2025 is shown in Table 2.10.

Table 2.10: Commercial Banks: Other Efficiency Measures: 2021–2025

	2021	2022	2023	2024	2025
Percent					
Average cost of deposits	1.9	2.6	3.2	2.7	4.1
Return on loans and advances	8.2	9.4	10.2	10.0	10.5
Net interest margin	4.4	4.8	5.5	5.8	4.9
Interest rate spread	3.8	3.9	4.5	4.8	3.1
Cost-to-income	60.3	56.6	56.3	51.6	52.4
Net income to employee costs	89.8	122.8	117.7	153.2	127.1
P'000					
Net income per employee	412.5	593.3	667.2	848.0	749.5
Staff costs per employee	459.5	461.9	566.7	553.5	589.8
Assets per employee	24 646	26 304	28 564	29 698	29 731

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

2.51 The return on loans and advances for commercial banks marginally increased from 10 percent to 10.5 percent; interest-rate spread fell from 4.8 percent to 3.1 percent, reflecting cost pressures on bank funding and a compression of net-interest margins. The average cost-of-deposits ratio rose from 2.7 percent in 2024 to 4.1 percent in 2025 owing to an increase of 2.9 percent in interest-bearing deposits, which has had a higher share in total funding. The ratio of net income-to-employee cost declined from 153.2 percent in the 12 months to December 2024 to 127.1 percent in the corresponding period in 2025, given the decline in net income of 10.4 percent, relative to the increase in staff costs of 8.3 percent. Net income per employee fell from P848 034 to P749 515 in the same period because of a decline in profit levels. Assets per employee remained at the same level of P29.7 million in 2025 as in 2024.

ASSESSMENT OF THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS: OFF-SITE SURVEILLANCE SYSTEM RESULTS

2.52 The Bank's off-site surveillance[12] (OSS) system results and the annual risk assessment review indicate that, during December 2025, the financial performance of commercial banks was sound. The strongest components were sensitivity to market risk (1.57), capital adequacy (1.59), and asset quality (1.67). Liquidity and earnings were rated adequate, given the industry average scores of 2.57 and 2.59, respectively. Table 2.11 shows the definition of colour codes, score ranges and risk rating for OSS. A summary of OSS ratings for the nine banks included in the framework is provided in Table 2.12, while Table 2.13 presents the December 2025 overall commercial banks quarterly OSS results.

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

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

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

Source: Bank of Botswana.

Table 2.12: Overall Commercial Banks December 2025 Quarterly OSS Results

Bank	Capital Adequacy	Asset Quality	Earnings	Liquidity	Market Sensitivity	Overall Score
Banking Sector Average	1.57	1.74	2.53	2.59	1.41	2

Source: Bank of Botswana.

STATUTORY BANKS[13]

Statement of Financial Position

2.53 Total assets for the two statutory banks amounted to P6.6 billion in 2025, a decline of 2.3 percent from P6.7 billion in 2024. The main source of funding for assets for the statutory banks was customer deposits and shareholder's equity, which decreased by 1.8 percent from P5.7 billion to P5.6 billion in the same period. Assets of the statutory banks were made up mainly of net loans and advances (78.7 percent), followed by placement with other banks and credit institutions at 13.5 percent. Debt securities and other borrowings constituted 11.7 percent of liabilities and decreased by 3.8 percent from P796.8 million in 2024 to P766.4 million in 2025.

[13] Banks established by specific statutes.

Table 2.13: Asset Categories for Statutory Banks: 2021–2025 (P million)

Category	2021	2022	2023	2024	2025
Cash and Balances with Bank of Botswana	**56 380**	**27 776**	**36 360**	**71 923**	**53 509**
Growth Rate (Percent)	49.1	(50.7)	30.9	97.8	(25.6)
Share of Total Assets	0.8	0.4	0.8	1.1	0.8
Placements with Other banks and credit institutions	**770 885**	**1 217 952**	**616 614**	**567 880**	**888 359**
Growth Rate (Percent)	(17.5)	58.0	(49.4)	(7.9)	56.4
Share of Total Assets	10.8	16.7	13.3	8.5	13.5
Net loans and advances	**5 950 922**	**5 657 873**	**3 185 583**	**5 570 309**	**5 161 469**
Growth Rate (Percent)	5.3	(4.9)	(43.7)	74.9	(7.3)
Share of Total Assets	83.2	77.6	68.6	83.0	78.7
Fixed assets net of depreciation	**255 930**	**218 109**	**198 545**	**193 150**	**182 382**
Growth Rate (Percent)	30.4	(14.8)	(9.0)	(2.7)	(5.6)
Share of Total Assets	3.6	3.0	4.3	2.9	2.8
Other (assets) net	**118 741**	**167 834**	**606 432**	**311 437**	**273 497**
Growth Rate (Percent)	(12.6)	41.3	261.3	(48.6)	(12.2)
Share of Total Assets	1.7	2.3	13.1	4.6	4.2
Total Assets	**7 152 857**	**7 289 544**	**4 643 533**	**6 714 698**	**6 559 215**

Note: 1. Parentheses denote negative figures.
2. Figures from 2023 exclude one bank because it ceased operating as a statutory bank

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

Table 2.14: Main Sources of Funding for Statutory Banks: 2021–2025 (P million)

Funding category	2021	2022	2023	2024	2025
Deposits	**5 062 258**	**5 295 864**	**2 400 953**	**4 380 186**	**4 109 534**
Growth rate (Percent)	6.3	4.6	(6.8)	82.4	(6.2)
Share of total funding (Percent)	70.8	72.7	51.7	65.2	62.7
Shareholder funds	**720 070**	**703 720**	**1 015 431**	**1 348 724**	**1 517 542**
Growth rate (Percent)	1.56	(2.3)	44.3	32.8	12.5
Share of total funding (Percent)	10.1	9.7	21.9	20.1	23.1
Debt Securities and Other Borrowings	**940 348**	**947 872**	**920 140**	**796 803**	**766 356**
Growth rate (Percent)	(14.6)	0.8	(2.9)	(13.4)	(3.8)
Share of total funding (Percent)	13.1	13.0	19.8	11.9	11.7
Other Liabilities	**430 182**	**342 090**	**307 010**	**188 985**	**165 784**
Growth rate (Percent)	12.1	(20.5)	(10.3)	(38.4)	(12.3)
Share of total funding (Percent)	6.0	4.7	6.6	2.8	2.5
Total Funding	**7 152 858**	**7 289 545**	**4 643 533**	**6 714 698**	**6 559 215**

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

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

Liquidity Risk

2.54 Liquid assets for statutory banks increased by 42 percent from P867.6 million in 2024 to P1.2 billion in 2025. The ratio of liquid assets to total deposits for one bank was 20.7 percent in 2025, up from 15.5 percent in 2024, and remained above the statutory minimum of 10 percent. The rise in the ratio was attributable to an increase of 75.8 percent in balances with Bank of Botswana from P1.5 million in 2024 to P2.6 million in 2025. On the other hand, the total liquid assets to total assets ratio of the other statutory bank rose from 13.1 percent in 2024 to 24.6 percent in 2025. The increase in the statutory bank's ratio was a result of a 20.2 percent increase in balances due from other banks from P187.7 million in 2024 to P225.5 million in 2025.

Credit Risk

Regulatory Capital Requirements on Credit Risk

2.55 Credit RWAs of the two statutory banks fell by 4.9 percent from P4.8 billion in 2024 to P4.6 billion in 2025. The credit RWAs constituted 92.1 percent of total RWAs as at 31 December 2025.

Loans and Advances, Credit Risk and Asset Quality

2.56 The loan book of the two statutory banks declined by 6.4 percent from P5.8 billion in 2024 to P5.4 billion in 2025. The statutory bank loan book comprised households and private businesses loans, which accounted for 82 percent and 18 percent of total credit, respectively. Within the household sector, personal loans constituted 81.6 percent, followed by mortgage loans, at 17 percent, and motor vehicle loans at 1.4 percent.

2.57 Aggregate NPLs for the statutory banks increased by 12.1 percent, from P330.1 million in 2024 to P369.9 million in 2025, which was mainly attributable to the respective 13.4 percent and 11.7 percent increases in NPLs at the two banks in 2025. Consequently, the ratio of NPLs to gross loans and advances for the banks increased from 5.7 percent in 2024 to 6.7 percent in 2025.

2.58 Total specific provisions for NPLs for the two banks were P151.9 million in 2025 compared with P146.3 million in 2024, an increase of 3.8 percent. The ratio of specific provisions to NPLs, however, decreased from 44.3 percent to 42.1 percent in the same period.

Capital Adequacy (Solvency): Levels, Quality and Trends

2.59 Unimpaired capital for the two statutory banks increased by 16.1 percent from P1.4 billion in 2024 to P1.6 billion in 2025. The growth in unimpaired capital reflected an increase of 6.9 percent in ordinary shares from P827.4 million in 2024 to P884.4 million in 2025, and a 43.4 percent increase in retained earnings from P171.1 million to P245.4 million in 2025.

2.60 RWAs for statutory banks declined by 3.3 percent from P5.1 billion in 2024 to P5 billion in 2025. The decline in RWAs is consistent with a decrease of 6.4 percent in loans and advances between 2024 and 2025. The CAR of the two banks increased from 26.4 percent in 2024 to 31.7 percent in 2025 and was above the 12.5 percent minimum prudential requirement for banks; the ratios for the two statutory banks were 65.2 percent and 17.3 percent, respectively, in 2025. The ratio of Tier 1 capital to unimpaired capital was 74.8 percent in 2024, and 75.3 percent in 2025.

Statement of Comprehensive Income

2.61 The two statutory banks reported an aggregate profit of P104 million in the 12 months to December 2025, an 87.9 percent growth from the P55.3 million in the prior year. One bank's net after-tax profit was P9.3 million in the 12 months to December 2025, an 83.6 percent fall from P56.6 million in the corresponding period in 2024. Further, the other bank reported a net after-tax profit of P94.7 million in the year to December 2025, a recovery from an after-tax loss of P1.3 million in the corresponding period in 2024. The increase in the net after-tax profit reported at the second bank was attributable to fund management fees from Temo Letlotlo, Covid-19 Industry Support Facility, Impact Accelerator Subsidy and Deutche Gesellschaft fur Internationale Zusammenarbeit[14], claimable from government during the year.

2.62 RoAA for the two banks increased from one percent in the 12 months to December 2024 to 1.6 percent in the corresponding period in 2025, while RoE improved from 4.1 percent to 6.9 percent in the same period.

2.63 The average cost-to-income ratio for the statutory banks fell from 77.6 percent in the year to December 2024 to 72.5 percent in the corresponding period in 2025. The cost-to-income ratio for one bank declined from 93.7 percent in the 12 months to December 2024 to 52.5 percent in the corresponding period in 2025 owing to an increase in non-interest income from a grant received from the Ministry of Finance, increasing the income from the level in the previous year. Cost-to-income for the other bank increased from 67.4 percent to 86.9 percent in the same period. Table 2.16 shows key performance indicators for the statutory banks during 2021 to 2025.

Table 2.16: Statutory Banks: Financial Performance Indicators: 2021–2025

Indicator	2021	2022	2023	2024	2025
P' million					
Net income	(11 015)	(11 857)	(33 395)	55 337	103 992
Interest income	544 827	558 385	448 382	522 985	776 834
Interest expense	291 323	326 486	210 773	231 459	443 082
Net interest income	253 503	231 898	237 610	291 526	333 752
Non-interest expense	313 103	300 784	335 057	367 665	393 847
Total assets	7 152 857	7 289 544	4 643 533	6 714 698	6 559 215
Average total assets	7 053 903	7 221 201	4 611 870	5 679 116	6 636 957
Average earning assets	6 653 467	6 798 816	3 999 624	4 970 193	6 094 576
Unimpaired capital	815 833	744 993	1 137 760	1 358 885	1 577 254
Risk-weighted assets	3 862 093	3 761 424	3 475 292	5 146 049	4 977 857
Percent					
Interest income to average total assets	7.7	7.7	9.7	9.2	11.7
Cost-to-income	104	104	99.2	77.6	72.5
Return on average assets	(0.2)	(0.2)	(0.7)	1	1.6
Return on equity	(1.5)	(1.7)	(3.3)	4.1	6.9
Return on advances	8.5	8.3	10.4	10	12.8
Average cost of deposits	4.3	5	6.4	5	9.0

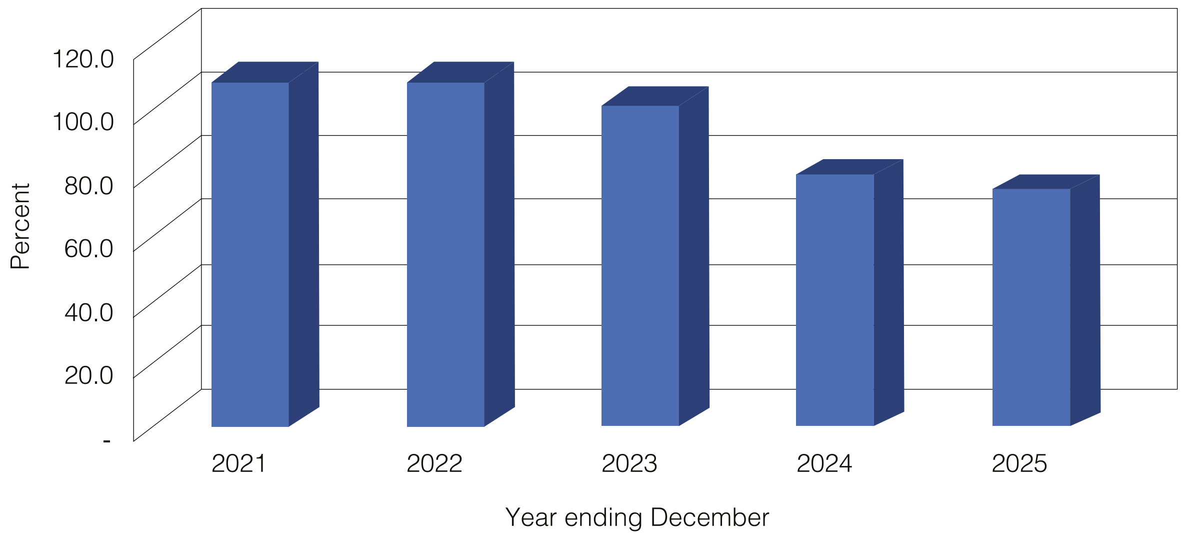
Notes: 1. Parentheses denote negative figures.
2. Figures from 2023 excludes one bank because it ceased operating as a statutory bank
3. One statutory bank does not take customers deposits.

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

[14] The Deutsche Gesellschaft für Internationale Zusammenarbeit was funded through the German Agency to support development and capacity building initiatives in Botswana.

2.64 Chart 2.22 presents the trend of the cost-to-income ratio for statutory banks over the five-year period, 2021–2025.

Chart 2.22: Statutory Banks: Cost-to-Income Ratio: 2021–2025 (Percent)



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

Operational Risk

Regulatory Capital Requirements for Operational Risk

2.65 Operational RWAs of the two statutory banks increased by 21.6 percent from P323.4 million in 2024 to P393.3 million in 2025. Operational RWAs contributed 7.9 percent to total RWAs in 2025.

OVERVIEW OF PILLAR 3 DISCLOSURE REQUIREMENTS

2.66 Pursuant to the Basel II Directive, banks are required to publish information on their risk-management practices to enable stakeholders to assess the risk profiles and capital adequacy of these financial institutions. During 2025, all banks published information on the capital position, risk profile and risk management systems in accordance with the Circular on Implementation of Pillar 3 Disclosure Requirements (Pillar 3 circular). Overall, banks were compliant with the requirements of the Basel II Directive and Pillar 3 circular, though minor shortcomings were observed at a few banks. The Bank continues to guide banks towards full compliance with the disclosure and all other regulatory requirements.

NON-BANK FINANCIAL INSTITUTIONS

Bureaux de Change Activities

Market Entry and Exit

2.67 As participants in the financial services sector, bureaux de change are licensed by the Bank and subjected to market conduct and financial requirements to protect consumers, prevent financial crime, and mitigate AML/CFT/CPF risks associated with that segment of the financial sector. During 2025, the Bank processed nine applications for a bureau de change licence. Of the nine applicants, four were issued with licences and began operation, one bureau de change is yet to begin business, while five applicants were advised to invite the Bank to conduct a pre-operation inspection within six months. Meanwhile, five bureaux de change voluntarily surrendered their licences in response to lack of business, while one licence was revoked for failure by the bureau de change to comply with the Bank of Botswana (Bureau de Change) Regulations. Overall, the number of licensed bureaux de change decreased from 49 in 2024 to 47 in 2025.

Table 2.17: Issued and Surrendered Bureaux de Change Licence

Entities issued with a licence	Entities for which a licence was voluntarily surrendered
Louise bureau de change	Iteksh bureau de change
Pefac bureau de change	Joshua bureau de change
Perfect bureau de change	Pennies & Cents bureau de change
Wealth bureau de change	Sefremit bureau de change
	Sherwood bureau de change
	Travellers bureau de change

Source: Bank of Botswana.

On-site Surveillance of Bureaux de Change

2.68 In 2025, the Bank conducted an on-site examination of one bureau de change in accordance with Regulation 19 of the Bank of Botswana (Bureaux de Change) Regulations. The entity generally complied with most of the provisions of the regulations except for the contraventions shown in Table 2.18. The bureau de change was fined P30 000 for non-compliance with the regulations.

Table 2.18: Violations of the Bank of Botswana (Bureaux de Change) Regulations by one bureau de change

Description	Contraventions
Failure to observe the prescribed daily transaction limit of P10 000 per customer	Regulation 13(1)
Failure to keep duplicate copies of transaction receipts	Regulation 14(2)
Failure to designate a primary bank account for bureau de change operations for maintenance of a minimum bank balance of P5 000	Regulation 5(2)(c)
Failure to separate financial affairs of the bureau de change from those of the money value transfer services.	Regulation 18(1)

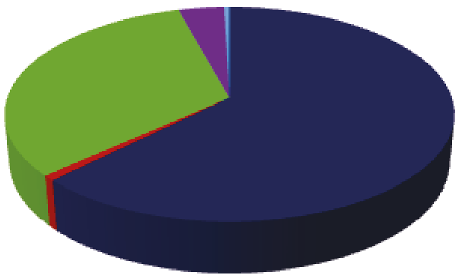
Off-site Surveillance of Bureaux de Change

2.69 An off-site review of the bureaux de change statutory returns showed that bureaux de change continued to facilitate foreign-exchange transactions in support of economic activity. The bureaux de change activity increased as reflected in the volumes of purchase and sale transactions conducted during the year. The value of foreign-currency sales increased by 33.5 percent to P1.01 billion in 2025 from P757 million in 2024, while that of purchases increased by 28.7 percent from P781 million in 2024 to P1 billion in 2025. The increase in the sale and purchase of foreign currency can be attributed to the increase in both the demand for foreign currency and access points because of bureaux de change that began operations and new branches of existing ones.

2.70 The United States dollar (USD) and South African rand (ZAR) dominated the bureaux de change foreign-exchange transactions during 2025, the same trend was observed in 2024.

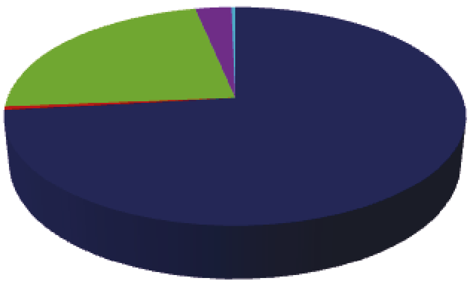
2.71 Charts 2.23 and 2.24 compare shares of sale and purchase of various currencies by bureaux de change in 2024 and 2025, while Chart 2.26 shows shares of foreign-currency sales and purchases of bureaux de change over a 5-year period.

Chart 2.23: Bureaux de Change: Shares of Foreign Currency Sales in 2024 and 2025 (Percent)



December 2024

USD	62.6
GBP	0.8
ZAR	32.4
EURO	3.8
OTHER	0.4

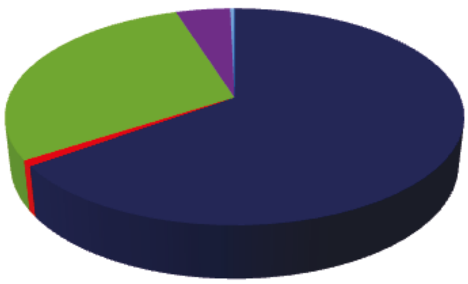


December 2025

USD	73.2
GBP	0.6
ZAR	23.0
EURO	2.9
OTHER	0.3

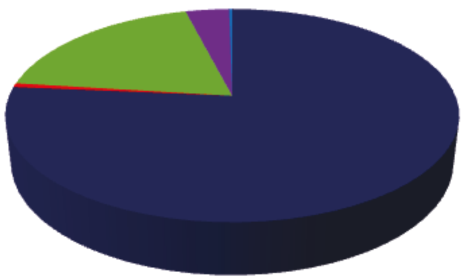
Source: Bureaux de Change (Statutory Returns submitted to the Bank).

Chart 2.24: Bureaux de Change: Shares of Foreign Currency Purchases in 2024 and 2025 (Percent)



December 2024

USD	65
GBP	0.9
ZAR	29.2
EURO	4.5
OTHER	0.4



December 2025

USD	76.4
GBP	0.6
ZAR	19.0
EURO	3.7
OTHER	0.3

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

Chart 2.25: Bureaux de Change: Sale and Purchase of Foreign Currency: 2021–2025 (Value)

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

Credit Bureau Activities

2.72 After the transition to a new regulated credit-information reporting framework, credit bureaus operating under the previous regime were required to apply for new licences to continue operating. In 2025, three credit bureaus were licensed and began operation: TransUnion (Proprietary) Limited, Micro-Finance Credit Bureau (Pty) Ltd, and Credbase (Pty) Ltd. No new licence applications were received during the year.

2.73 The Bank rejected a licence application of one credit bureau on account of cross-directorship and shareholding arrangements that contravened the Credit Information Act, 2021. Although the company was given an opportunity to address these gaps and reapply, it chose to exit the Botswana market, and the deregistration of the business was ongoing at the end of 2025. The Bank has provided guidance to ensure an orderly exit from the market.

2.74 In October 2025, the Bank held a stakeholder engagement session to sensitise market participants to the Credit Information Act, 2021, the Credit Information Regulations, 2022, and the Bank's mandate as a regulator and supervisor of credit bureaus. Participants included licensed banks, non-bank lenders, existing and prospective credit bureaus, consumer protection bodies and relevant government authorities. The session covered the importance of an effective credit information-sharing ecosystem, the obligations of data providers and users, the rights of data subjects regarding consumer information, and complaint-investigation processes.

2.75 The Bank will continue those engagements to strengthen the national credit-information reporting ecosystem through enhanced collaboration among data providers, users, and regulators.

CHAPTER 3

THE NATIONAL PAYMENTS SYSTEM

CHAPTER 3
THE NATIONAL PAYMENTS SYSTEM

OVERVIEW OF THE NATIONAL PAYMENTS SYSTEM

3.1 The Bank exercises oversight of the National Payments System (NPS) and ensures that payment system infrastructures operate in a safe, sound, and efficient manner. Effective payment system oversight is essential for maintaining the stability and integrity of the banking and financial markets, supporting monetary policy objectives, and preventing the misuse of payment systems for financial crime. Overall, effective operation and oversight of the payments system contribute to the principal objectives of price and financial stability.

3.2 Through oversight, the Bank aims to

(a) promote safety of the payments system by ensuring that all participants and users adhere to the regulations and directives issued under the Bank of Botswana Act (Cap. 55:01), as amended, National Clearance and Settlement Systems (NCSS) Act (Cap. 46:06) and Electronic Payment Service (EPS) Regulations, 2019 (EPS Regulations);

(b) ensure efficiency through monitoring and assessing payment, clearing and settlement systems against safety and efficiency guidelines and objectives; and

(c) promote reliability by overseeing system infrastructure, ensuring compliance with security standards, and facilitating an environment for innovation.

3.3 The Bank's oversight approach is guided by the principles for financial market infrastructures (PFMIs), issued by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). The global standards promote the safety, efficiency, and resilience of key financial market infrastructures (FMIs), including payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories.

System Operators and Designated Systems

3.4 The Botswana NPS has two broad classifications: systemically important payment systems (SIPS)[15] and non-systemically important payment systems (non-SIPS), considering their role and impact on financial stability. The primary distinction between SIPS and non-SIPS lies in their criticality to functioning of the financial system. SIPS are categorised according to size, nature, interconnectedness, and critical role in economic activity. Their failure could disrupt the financial system, undermine confidence, and negatively affect the broader economy.

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

3.5 SIPS are defined as systems significant to financial stability because of their transaction volumes, market share, and cross-border relevance. BISS, BACH and Central Securities Depository Botswana (CSDB) have been designated as SIPS in Botswana.

3.6 Non-SIPS, on the other hand, handle low-value, high-volume transactions, such as retail payments facilitated by card networks or mobile platforms. Non-SIPS are retail payment systems that do not have the potential to cause significant disruption to the payments ecosystem. While non-SIPS[16] play an essential role in supporting day-to-day economic activities, disruption in these systems does not pose systemic risks. Instead, their impact is generally limited to operational inconvenience, an undesirable occurrence, for users.

3.7 Electronic payment services classified as non-SIPS are licensed under the EPS Regulations across three categories: (a) electronic money issuance; (b) account-based payment services, covering card payments, credit and debit transfers, and aggregation services; and (c) non-account-based payment services (money remittance).

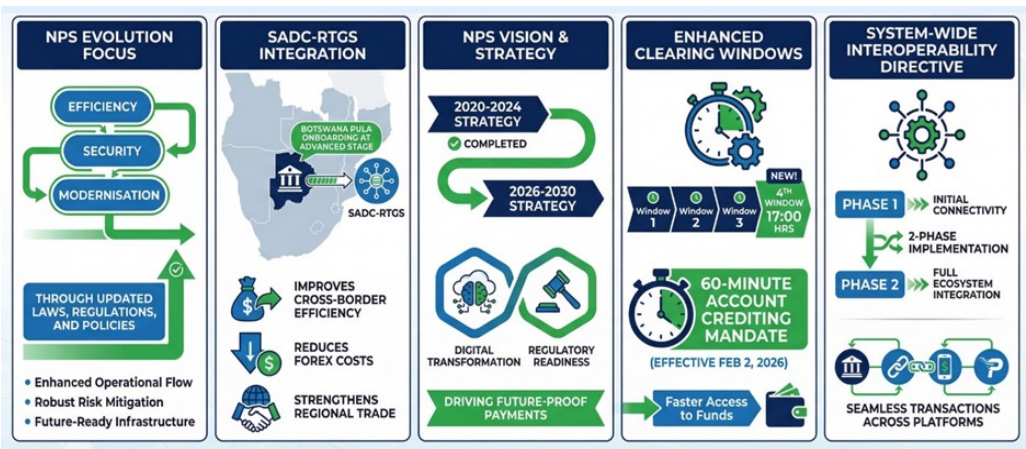
Developments in the National Payments System

Efficiency, Security and Improvements in the NPS

3.8 The NPS in Botswana is evolving, with a focus on efficiency, security, and modernisation. As at the end of 2025, the Bank was reviewing and updating laws, regulations, and policies governing payment systems to sustain the integrity, safety, and efficiency of the NPS, while fostering its adaptability to emerging challenges and technologies.

3.9 Several strategic initiatives are under way to future-proof the NPS and align it with national and regional priorities as outlined in Figure 1.

Figure 1: NPS Modernisation and Strategic Initiatives



Source: Bank of Botswana

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

3.10 The project to on-board the Bank and Botswana Pula onto the Southern African Development Community Real-Time Gross Settlement (SADC-RTGS) system as a participant and currency of settlement, respectively, was approved in 2025. Its implementation will improve cross-border payment efficiency, reduce dependence on major foreign currencies, lower transaction and foreign-exchange costs, and strengthen regional trade and financial integration.

3.11 To support the objectives of the Botswana Economic Transformation Programme and meet the increasing demand for near real-time digital payments, the Bank issued a directive to the BACH and banks for the introduction of a fourth and additional clearing and settlement window and enforced straight-through processing requirements. Pursuant to Circular 2/2025 on enhancement of clearing and settlement framework for electronic funds transfer, a fourth weekday clearing and settlement window at 1700 hours was introduced, and banks were required to credit customer accounts within 60 minutes of completion of each settlement cycle, effective from 2 February 2026. These measures were intended to address inefficiencies within the clearing and settlement framework and to enhance customer experience.

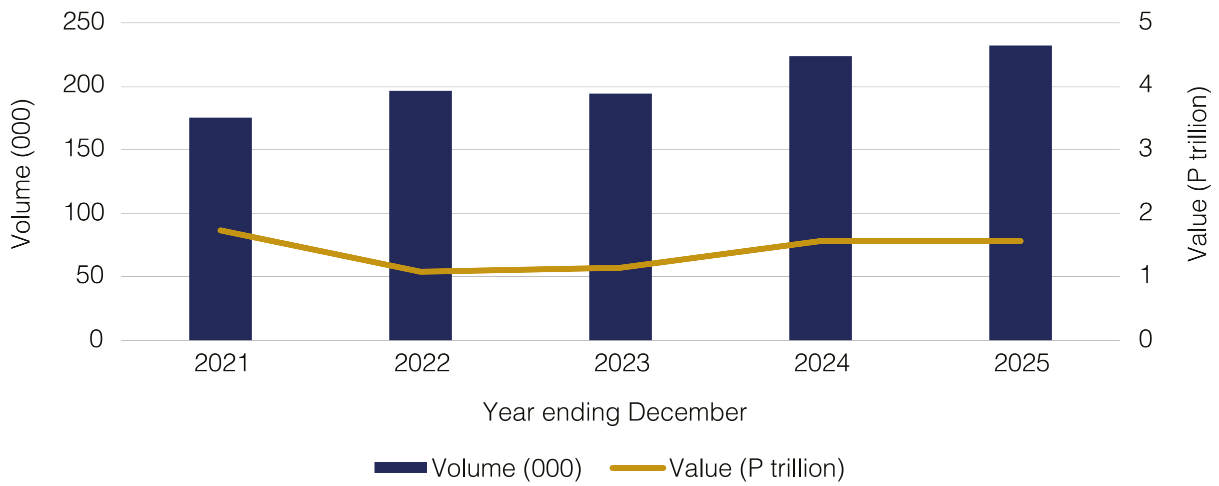
3.12 In addition, the Bank issued a directive to oblige system-wide interoperability between banks and licensed electronic-money issuers. The two-phase implementation, covering wallet-to-wallet and bank-to-wallet interoperability, aims to eliminate market fragmentation, promote equitable access, and align the national payments landscape with international best practices. Full compliance was required by 1 July 2026.

3.13 Collectively, these developments reflect sustained progress in modernising Botswana's payments landscape and positioning the NPS as an efficient, secure, and forward-looking system capable of supporting innovation, promoting inclusion, and enabling deeper regional and global financial connectivity.

Trends in Selected Payment Systems

3.14 In 2025, the payment system usage in Botswana continued the upward trajectory, reflecting increased confidence in digital platforms and robust infrastructure performance. Overall, the FMIs operating in Botswana, notably, the BISS, BACH and CSDB, continued to deliver secure and reliable clearing and settlement services. The volume of transactions settled in the BISS increased by 3.7 percent from 223 520 in 2024 to 231 722 in 2025. Meanwhile, there was a decrease of 0.6 percent in the value of the transactions settled in the BISS from P1.57 trillion to P1.56 trillion in the same period (Chart 3.1).

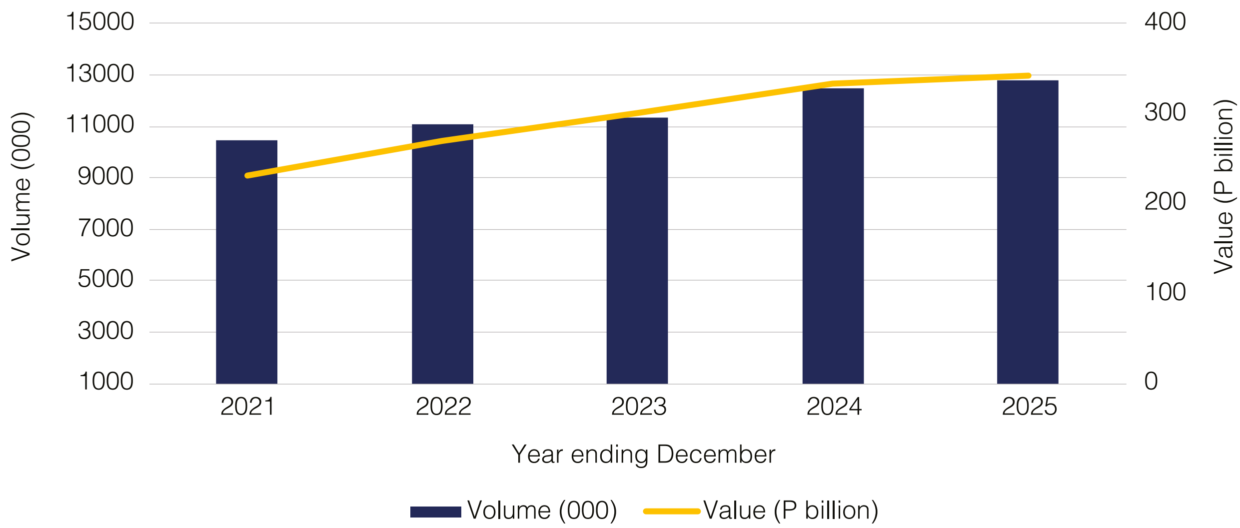
Chart 3.1: Botswana Interbank Settlement System Transactions 2021–2025



Source: Bank of Botswana

3.15 The volume and value of EFT transactions processed through the BACH system both increased by 2.5 percent in 2025; volume rose from 12.45 million to 12.79 million transactions, and value from P333.5 billion to P341.8 billion (Chart 3.2).

Chart 3.2: Botswana Automated Clearing House, Electronic Funds Transfer Processing: 2021–2025



Source: Bank of Botswana

The National Payments System Vision and Strategy

3.16 The implementation of the NPS Vision and Strategy (2020–2024) has been completed, save for the outstanding initiatives carried forward to the 2026–2030 strategy, which is under development. The NPS Vision and Strategy 2026–2030 aims to accelerate digital transformation, strengthen regulatory readiness, and position the NPS for long-term resilience and competitiveness.

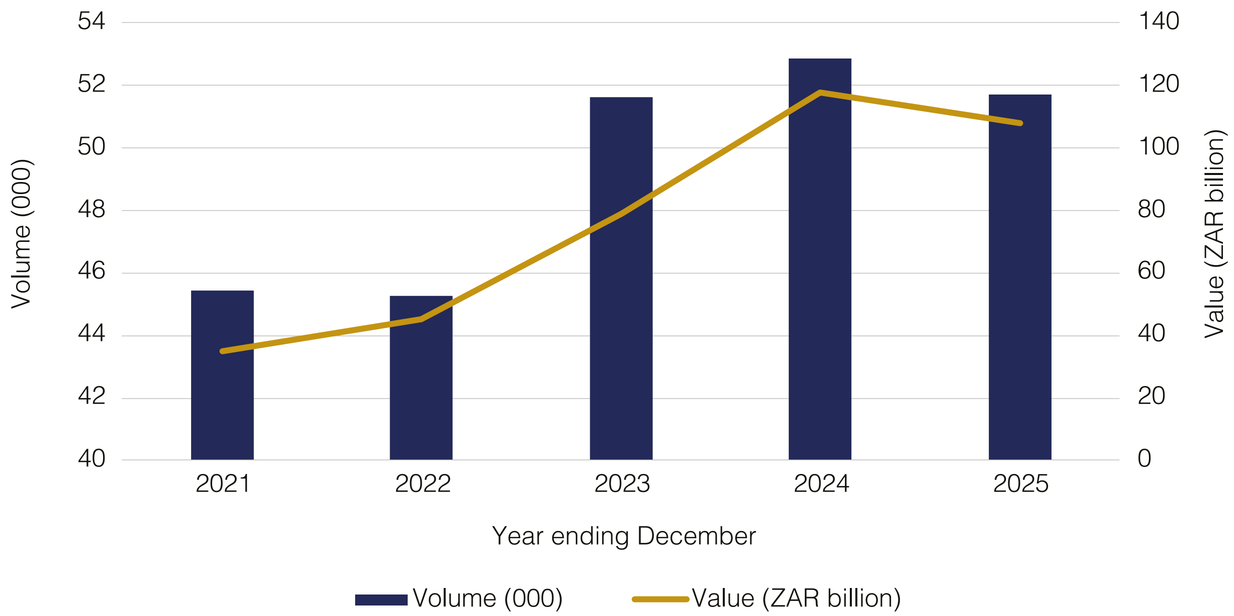
Regional Payments Integration Project

3.17 In support of the SADC regional payments integration initiatives, the Bank continues to facilitate participation of Botswana banks in the regional payments infrastructures known as the SADC-RTGS system. During the review period, one bank was on-boarded onto the SADC-RTGS system, bringing the total number of participating Botswana banks to five. As at end of 2025, Botswana commercial banks had settled transactions valued at P107.9 billion, an 8.4 percent decline from P117.7 billion in 2024.

3.18 Moreover, one bank joined the SADC transactions cleared on an immediate basis scheme, becoming the first Botswana participant in the regional instant-payments platform.

3.19 Chart 3.3 shows an upward trend in the value of transactions settled through the SADC-RTGS system by Botswana banks, accompanied by a marginal decline in the volume of transactions between 2024 and 2025.

Chart 3.3: Transactions settled by Botswana Participants on the SADC-RTGS (2021–2025)



Source: Bank of Botswana

Licensing of Electronic Payment Services Providers

3.20 In 2025, the Bank received four applications for an EPS provider licence. Of the four applicants, two EPS providers were licensed to operate electronic money-issuance services, augmenting the competitive landscape of digital financial services. The other two applications were assessed and determined to fall outside the scope of the EPS Regulations and therefore the applicants could not be licensed under the EPS Regulations.

3.21 Meanwhile, the Bank revoked EPS licences of four entities. Two service providers voluntarily surrendered their licences while the licences of the other two were revoked because the entities were non-compliant with the provisions of the EPS Regulations. Consequently, the number of licensed and operating EPS providers fell to 22 as at the end of 2025 from 24 in 2024; the EPS providers had a nationwide distribution network of over 2 500 authorised agents.

Oversight Inspections

3.22 During 2025, the Bank conducted an on-site inspection of BISS. BISS was assessed to be generally safe, reliable, and efficient in terms of the NCSS Act and the applicable PFMIs.

3.23 The Bank also conducted on-site inspection of four EPS providers. One service provider was found to be generally compliant with the EPS Regulations, while the remaining three were non-compliant and consequently subjected to enforcement actions, including fines and licence suspension. Table 3.1 shows a summary of the contraventions of the EPS Regulations by the EPS providers.

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

EPS Provider	Regulation	Contravention	Description	Corrective Action Taken
EPS Provider 1	Regulation 14	Approval of changes	The entity failed to seek prior authorisation from the Bank for enhancements of its services	Penalty fee of P5 000
	Regulation 20	Capital requirements	The entity failed to generate eligible capital to fulfil the required minimum capital of P1 million	
	Regulation 24(4)	Submission of audited annual financial statements	The entity failed to submit audited financial statements within three months of the end of the financial year	
EPS Provider 2	Regulation 15(2)(b)	Maintenance of separate books of accounts	The entity failed to separate the financial affairs of the money-transfer business from that of the bureau de change business in the financial statements	Issued a cautionary letter to the EPS provider
EPS Provider 3	Regulation 10(1)(a)	Commencement of operations	The entity failed to begin operations within 12 months from the date the licence was issued	Penalty fee of P5 000 and licence suspension
	Regulation 17(1)(b)	Maintaining updated internal controls	The entity failed to maintain updated internal control policy, business continuity management policy and operational policy	
	Regulation 20	Capital requirements	The entity failed to generate eligible capital to fulfil the required minimum capital of P2 million	
EPS Provider 4	Regulation 21(c)	Dedicated cash account	The entity failed to open a dedicated cash account with a commercial bank in Botswana	Consideration for suspension and penalty fee of P5 000
	Regulation 14	Approval of changes	The entity failed to seek prior authorisation from the Bank on changes in shareholding structure	

Source: Bank of Botswana

Emerging Trends, Risks and Challenges in the NPS

3.24 Botswana's NPS is shaped by accelerated digitisation driven by increased mobile money usage, expanded Application Programming Interface driven services, growing interoperability initiatives, fintech integration, and rising demand for instant payments. At the same time, efforts to link domestic systems with regional platforms are improving the efficiency of cross-border transactions and strengthening alignment with regional payment modernisation programmes.

3.25 Despite this progress, several risks and challenges persist, including heightened cybersecurity threats, fraud, operational vulnerabilities, infrastructure gaps, incomplete interoperability, and ongoing financial inclusion disparities, particularly affecting underserved populations. To address these challenges, the Bank continues to strengthen regulatory and supervisory frameworks, enhance oversight of critical infrastructures, and advance modernisation initiatives to ensure a secure, efficient and inclusive NPS.

Financial Inclusion Initiatives

3.26 The Bank continued to receive applications for introduction of new bank products which are affordable, convenient and appropriate to close the remaining gaps in financial inclusion. These products and services covered a range of banking products such as mobile money-accepting point-of-sale machines, extension of digital wallets to any mobile number, and mortgage products for low-income earners. These products and services target the financially excluded, low-income persons and households.

BOX 2: FINANCIAL CRIME AND AML/CFT/CPF COMPLIANCE: WHERE IS THE NEXT PROBLEM?

Introduction

In an era of rapid digital transformation, financial crime is evolving faster than regulatory frameworks can keep pace with. Criminals are exploiting new technologies, borderless payment systems, and regulatory gaps to launder money, fund terrorism, commit fraud, and evade sanctions. Compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) is no longer a matter of ticking boxes; it has become a crucial race to stay ahead of sophisticated threats that increasingly blend fraud, cybercrime, and traditional money laundering techniques.

This article aims to sensitise stakeholders: banks, other financial entities, and the public to the emerging hotspots where the next major problems are likely to arise. Drawing from global trends in 2025 reviews and 2026 outlook, the focus is on conscious awareness to protect financial systems and economies.

The next frontier in financial crime and AML/CFT compliance is becoming increasingly complex. The following are key challenges to look out for:

Real-Time Payments and Fast-Moving Funds: Speed Outruns Controls

The rapid growth of real-time and instant payment platforms has revolutionised financial transactions and created instant opportunities for money laundering. Criminals exploit the speed of these systems to layer funds before compliance alerts can be triggered. Hybrid threats that combine fraud with AML/CFT risks are on the rise. From a regional perspective, the expansion of digital banking has increased exposure to cyber-enabled fraud and money mule networks.

To address instant payments fraud, there is need to shift from traditional monitoring to real-time AML/CFT surveillance supported by predictive analytics and integrated fraud-AML/CFT systems capable of flagging anomalies instantly.

Emerging Areas: Gambling, Real Estate, and Non-Financial Gateways

Online gambling, sports betting (including micro-betting), real estate transactions, and shadow corporate structures have become prime channels for money laundering. These activities often involve high-volume, low-value transactions that easily evade manual detection. Although regulators are expanding AML/CFT obligations to previously non-obliged entities such as lawyer firms and accounting firms' enforcement remains uneven across jurisdictions. In many markets, hidden sponsorships and shell entities continue to obscure the true origin of funds. Botswana's booming real estate business and the rapid growth of betting activities make these areas particularly vulnerable, especially when coupled with cross-border fund flows. To evade the vulnerability, institutions should conduct sector-specific risk assessments and strengthen collaboration through public-private partnerships.

Criminals are Using Advanced Technology

Criminals are increasingly outpacing legacy compliance systems by leveraging generative artificial intelligence (AI), deepfakes, and other advanced tools for identity theft, fraud, and automated laundering schemes. Deepfakes, for instance, can generate fake videos or voices to bypass know-your-customer (KYC) processes, while AI can orchestrate complex layering across multiple accounts. Traditional rulebased monitoring systems often fail to detect these dynamic, adaptive patterns. Looking ahead from 2026 and beyond, AI-driven fraud rings are expected to proliferate, particularly through low-value, high-volume techniques, such as ‘smurfing’ (gaming) and micro-betting in online gambling platforms.

In Botswana, the boom in mobile money and fintech platforms, especially digital wallets, presents heightened risks due to potentially weak oversight and exposure to cross-border fraud. Financial institutions must therefore adopt explainable AI solutions for compliance, maintain human oversight, and continually train staff on emerging typologies.

Cyber-Enabled Organised Crime

Cyber-enabled organised crime and sanction evasion pose interrelated risks that exploit financial system vulnerabilities. In Southern Africa, continuing FATF grey-list pressures on several countries continue to affect correspondent banking relationships and broader economic stability. To address this, Botswana’s public-private partnership networks should be strengthened and internal risk assessments updated. Improve information exchange throughout Botswana’s public-private partnership networks.

Responses and Mitigations

Protecting financial integrity is essential for economic stability. By anticipating these emerging hotspots, stakeholders can transform potential crises into well-managed risks. The future of AML/CFT compliance is expected to be proactive, tech-enabled, and collaborative.

The recommendations listed below should be considered by actors in the financial ecosystem. Banks and fintechs should invest in AI-driven, integrated compliance tools that break down silos between AML/CFT, fraud, and cyber teams. Regulators must accelerate risk-based oversight and cross-border cooperation, while the general public should be informed; report suspicious activities, use robust authentication, and check sources before disclosing crucial information.

References

Botswana 12th Enhanced Follow-Up Report (September 2025). ESAAMLG https://www.esaamlg.org/

Financial Action Task Force (FATF). (22 December 2025). *Horizon Scan: AI and Deepfakes– Impacts on AML/CFT/CPF.* FATF. https://www.fatf-gafi.org/en/publications/Methodsandtrends/horizon-scan-ai-deepfake.html

Sanction Scanner. (22 December 2025). *Financial Crime & Compliance Report 2025–2026*. https://www.sanctionscanner.com/blog/financial-crime-compliance-report-1288

Shufti Pro. (2025, July 21). Money Laundering Statistics 2025 – 45 Facts & Trends. https://shuftipro.com/blog/money-laundering-facts-statistics-2025-update/

Transparency International. (26 March 2025). *New Index Reveals Alarming Opacity and Money Laundering Vulnerabilities in Global Real Estate.* https://www.transparency.org/en/press/new-index-reveals-alarming-opacity-and-money-laundering-vulnerabilities-global-real-estate

CHAPTER 4

LICENSING AND CONSUMER PROTECTION

CHAPTER 4
LICENSING AND CONSUMER PROTECTION

MARKET ENTRY ENQUIRIES AND LICENSING OF BANKS

Enquiries on Bank Licensing

4.1 The Bank received 10 enquiries on licensing requirements for banks and other deposit-taking institutions; five of the enquiries related to a commercial bank licence, four to a deposit-taking institution licence, and one to an investment bank licence. Only one enquiry progressed into an application for a banking licence.

ILLEGAL DEPOSIT TAKING

Dafritech Proprietary Limited

4.2 After issuance of public notices by the Bank in December 2023, a follow-up request was made to members of the public who deposited funds into the Dafritech Proprietary Limited (Dafritech) account held with one commercial bank to claim their funds by 31 December 2025; thirty of the 116 Dafritech claimants have been refunded a cumulative amount of P595 380.34 from the total funds of P831 244.56; the balance was P235 864.22 after those transactions.

UPDATE ON FATF 40 RECOMMENDATIONS - COUNTRY RATINGS

4.3 Following the amendment of the AML/CFT/PFT legislation in 2025, which included the Financial Intelligence Act, 2022 (FI Act), the Trust Property Control Act, 2022 and the Registrar of Societies Act, Botswana submitted a re-rating request to the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) on seven outstanding Financial Action Task Force (FATF) recommendations. After the review, six recommendations were upgraded to either compliant or largely compliant, while one recommendation remained partially compliant. Table 4.1 shows the level of the country's compliance with the 40 FATF recommendations as at 31 December 2025.

Table 4.1: Level of the Country's Compliance with the 40 FATF Recommendations

	2017 MER	2019 MER Re-rating	2020 MER Re-rating	2021 MER Re-rating	2022 MER Re-rating	2025 MER Re-rating
Compliant	0	6	6	7	7	9
Largely Compliant	2	13	16	22	25	29
Partially Compliant	14	16	13	8	5	1
Non-Compliant	23	4	4	2	2	0
Not applicable	1	1	1	1	1	1

Source: ESAAMLG

COMMERCIAL BANK INTEREST RATES AND CHARGES

Interest Rates and Policy

4.4 Banks independently adjusted their prime lending rates in the context of the 2022 reforms to the monetary policy framework and operations, wherein banks were to independently determine their own prime lending rates. Prime lending rates ranged from 6.76 percent to 8.01 percent in 2025. Banks were directed not to increase the prime lending rate with effect from 30 October 2025. The policy decision was intended to reinforce policy transmission, particularly in relation to the monetary operations tools and distribution of market liquidity.

4.5 That notwithstanding, banks widened lending interest rate margins above the prime lending rate to ensure that loan pricing was aligned with prevailing market conditions. Lending interest rate margins are determined by banks, factoring in credit risk, the cost of funds, operational costs, capital requirements and targeted returns, among others. Consequently, adjustments to lending interest rate margins may reflect broader funding, commercial and profitability considerations, in addition to evolving borrower risk profiles.

4.6 Banks continued to comply with the Regulatory Guidelines RG. No. 01/11/2022 on Deposit and Lending interest rates by publishing the indicative minimum and maximum deposit and lending interest rates in at least two newspapers widely circulating in Botswana and the websites of the respective banks. Table 4.2 shows range of deposit interest rates payable on the various deposit products offered by commercial banks as at 31 December 2025. Interest rates ranged from zero to 13.5 percent. The 3–6 months deposit products attracted commensurately higher interest rates reflecting banks' need and preference for short-term funding in response to the prevailing liquidity constraints.

Table 4.2: Commercial Banks: Deposit Rates as at 31 December 2025

Deposit Product	Deposit Rates (annual percent)	
	Lowest	Highest
Current account	0.00	3.00
Savings*	0.00	4.50
Call	0.00	5.50
91 days	0.85	13.50
6 months	1.40	13.50
12 months	1.51	10.50
24 months	1.57	7.00
Monetary Policy Rate	3.50	

*Savings include both ordinary and special savings accounts.

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

4.7 Table 4.3 shows a range of lending interest rates offered by various banks as at 31 December 2025. The lending interest rates ranged from 2.75 percent to 36 percent. Banks generally increased lending rates to maintain interest margins in the context of the rising cost of funding owing to tighter market liquidity conditions.

Table 4.3: Commercial Banks: Lending Rates as at 31 December 2025

Lending Product	Lending Rates (Annual Percent)	
	Lowest	Highest
Mortgage rate	2.75	20.76
Overdraft rate (revolving credit lines)	4.00	26.76
Credit card rate	17.51	36.00
Lease loans	5.01	25.76
Personal loans (excluding overdrafts, and credit cards)	2.75	33.00
Other long-term loan rates	2.75	24.00
Prime lending rate	6.76	8.01
Monetary Policy Rate	3.50	

Source: Commercial Banks (Statutory Returns submitted to the Bank

Commercial Bank Charges

4.8 Consistent with item 12 (1) of the Disclosure of Bank Charges Notice No. 41 of 2001 (Disclosure), two banks submitted proposed tariff adjustments for assessment and approval by the Bank. In assessing the charges, the Bank took into consideration, among others, the cost-justifications advanced for the pricing adjustments, the medium-term inflation objective range of 3–6 percent and the accommodative monetary policy stance of the Bank.

4.9 The tariff adjustments for the two banks were approved, and, in line with the requirements of the disclosure framework, customers were given notice of no less than 21 banking days before banks could implement the approved tariffs, by publishing the tariff guides in local newspapers and the banks' websites.

4.10 Table 4.4 presents industry minimum and maximum charges for selected banking services in 2025. The structure is based on three broad categories of frequently applied charges: access facilitation, investment/intermediation, and trade facilitation.

Table 4.4: Selected Commercial Banks Minimum and Maximum Charges as at 31 December 2025

Service Charge Category	Industry Minimum (Pula)	Industry Maximum (Pula)
Access Facilitation		
(i) Cash withdrawal (own bank)	2.52	6.35
(ii) Lost ATM card replacement	57.19	114.00
(iii) Point of sale	Free	2.67
Internet Banking Charges		
(i) Transfers (third party within a bank)	2.28	3.99
(ii) Transfers (outside bank)	2.50	5.09
Mobile Banking Charges		
(i) Utility bill payments	2.95	4.20
(ii) Payment to third-party accounts	2.91	5.09
(iii) Buy pre-paid airtime	Free	0.68
(iv) Cash send/e-wallet/instant money	7.45	11.80
(v) Electronic fund transfers	6.38	28.50
Investment/Intermediation		
(i) Personal loan arrangement fee (minimum)	152.64	1188.18
(ii) Vehicle/asset finance arrangement fee (minimum)	353.29	1147.38
(iii) Mortgage arrangement fee (minimum)	353.29	2 280
(iv) Credit Reference Bureau and ITC	6.83	282.29
Trade Facilitation		
(i) Purchase of foreign notes (minimum)	19.32	31.76
(ii) International SWIFT transfer (maximum)	136.93	611.46
(iii) Advising commission on letters of credit (minimum)	117.11	447.09
(iv) Real time gross settlement (maximum)	121.00	366.90
(v) Transfer to accounts at foreign banks (maximum)	5.70	402.97

Source: Commercial Banks.

CONSUMER COMPLAINTS MANAGEMENT

4.11 The Bank received 18 complaints in 2025, the same number as in 2024. As at 31 December 2025, 25 complaints had been processed, including the seven brought forward from the previous year. Of these, 18 were resolved, while seven were undergoing the resolution process. The complaints emanated from various sources of customer dissatisfaction as illustrated in Table 4.5.

Table 4.5: Commercial Banks' Consumer Complaints in 2025

Nature of Complaint Received	Received	Resolved	Total Outstanding as at 31 December 2025
Unsatisfactory service	8	6	2
Unfair handling of loans	7	6	1
Unauthorised transactions	3	2	1
Disputed mortgage/credit-card insurance covers	6	3	3
Fraudulent Transactions	1	1	0
Total	25	18	7

Source: Bank of Botswana.

ABANDONED FUNDS

4.12 In accordance with Section 96(4) of the Banking Act, the Bank continued to administer abandoned funds received from commercial banks. As indicated in Table 4.6, the net increase in the balance of abandoned funds was 25.2 percent from P34 336 420 in 2024 to P42 976 152 in 2025.

Table 4.6: Total Abandoned Funds from Commercial Banks in 2024 and 2025

	2024 Pula	2025 Pula
Balance brought forward	27 088 850	34 336 420
Funds received	11 023 901	11 465 336
Claims paid	(679 895)	(345 121)
Refund to banks	(241 717)	(81 086)
Refund to the Bank	2 400	280
Transfer to Guardian Fund	(2 857 119)	(2 399 676)
Balance at year-end	**34 336 420**	**42 976 152**

Note: Parentheses denote pula amount paid out.

Source: Bank of Botswana and Commercial Banks.

BOX 3: DEPOSIT INSURANCE SCHEME OF BOTSWANA

The Deposit Insurance Scheme of Botswana (DISB) is a public scheme set up to compensate depositors when a bank or deposit-taking institution has failed. DISB is established through the Bank of Botswana (Amendment) Act, 2022 and operationalised through the DISB Regulations, which came into effect on 21 July 2023. The DISB is administered by staff seconded from the Bank of Botswana and operates from the Bank of Botswana head office.

Governance and Accountability

The Deposit Insurance Committee, which is the governing body of the DISB, has membership as follows:

(a) Four members, not being public officers, one of whom shall be a representative of a recognised association of financial institutions and a chairperson is appointed from amongst these members; and

(b) Three ex officio members: permanent secretary in the Ministry of Finance, governor of the central bank, or their representatives and director of the DISB.

2025 DISB Annual Report and Audited Financial Statements

DISB produced an annual report on its operations for 2025. The report also has DISB's 2025 audited annual financial statements. The annual report is accessible on the Bank of Botswana website at https://www.bankofbotswana.bw/sites/default/files/Annual%20Report%202025.pdf

(a) Growth in Total Insurable Deposits

Average total insurable deposits[17] for the 12-month period ended 31 December 2025 were estimated at P73.3 billion, translating into 61.2 percent of total deposit liabilities of member institutions. The P73.3 billion indicated an increase of 0.7 percent from P72.7 billion average total insurable deposits over the same period in the previous year.

DISB's coverage limit is set at P250 000 per depositor per member institution in the unlikely event of failure of a member institution. At this coverage limit, it is estimated that 77.5 percent of small retail depositors would be fully covered, whereas in value, it is estimated that 12.3 percent of the total deposits are covered.

(b) Funding and Investment Activities of the DISB

DISB is mainly funded through premiums levied on member institutions. The 2026 premiums contributions amounted to P73 million, which is a 0.7 percent increase from 2025 total premium contributions. DISB invests the Fund money in treasury bills and bonds to preserve the Fund capital and for maintenance of liquidity. As at 31 December 2025, DISB had participated in the monthly government securities auctions and invested a total of P129 million in treasury bills and treasury bonds of varying maturities. From these investments, the Fund earned total investment income of P4.2 million during the period under review.

(c) DISB's Fund Balance and Target Fund Ratio

DISB reported a balance-sheet growth of 131.1 percent, as total assets increased from P56.3 million in 2024 to P130.1 million in 2025, an increase of P73.8 million. The significant growth in the balance sheet was

[17] Insurable deposits are total deposit liabilities minus excluded deposits as outlined in the DISB regulation 29.

driven primarily by higher premium contributions into the Deposit Insurance Fund (the Fund) during the year, which directly increased cash holdings and the premiums contributions were subsequently deployed into investment assets, particularly treasury bills and bonds, in line with DISB's conservative investment mandate. Other assets included the recognition of a motor vehicle donated by the Bank of Botswana. Collectively, the various sources resulted in more than double growth in the Fund's asset base compared with the level in the prior year. As a result of the increase in the Fund balance, the target fund ratio[18] increased to 0.18 percent in 2025, from 0.08 percent in 2024. The target fund ratio is, however, still very low compared with the benchmark of a minimum 2 percent.

(d) **Public Awareness Campaigns**

DISB continued to engage members of the public through different platforms with a view to enhancing its public education initiatives, thus providing assurance to depositors of the protection offered by the scheme. DISB conducted a mini public roadshow in Francistown and Palapye towards the end of 2025. Further, DISB conducted public awareness campaigns through a private radio station; and published its educational pamphlet in newspapers and on its page on the Bank of Botswana website. The public awareness activities of DISB will be increased gradually, monitored and evaluated on an ongoing basis.

[18] Target fund ratio refers to the size of the fund, typically measured as a proportion of the assessment base (for example, total or insured deposits) sufficient to meet the expected future obligations and cover the operational and related costs of the deposit insurer.

CORPORATE GOVERNANCE

4.13 During 2025, banks continued to appoint board and senior management officials who met the requisite fitness and propriety criteria for eligibility to hold senior management positions in licensed banks in accordance with the requirements of Section 47(1) of the Banking Act, as read with the Guidelines on Corporate Governance for Banks/ Financial Institutions Licensed and Supervised by the Bank of Botswana. The Bank received and processed 15 applications for the appointment of board members and 26 applications for the appointment of senior management officials. Out of the 15 board member applications received, 12 were approved. One applicant failed to meet the conditional approval for serving on the board of a bank, while two were declined on account of contravention of the provision on related-party representation, and misalignment with the Botswana Government's localisation policy, which prioritises employment opportunities for qualified Botswana citizens. All 26 applications for the appointment of senior management officials were approved.

4.14 In 2025, 71.1 percent of the approved board and senior management appointments were Botswana nationals compared with 83.8 percent in 2024 (Table 4.7). Despite the decline of local representation in the boards of banks, from the previous reporting period, citizen representation remains significant. Nineteen board members and senior management officials retired/resigned from various banks during the same period.

Table 4.7: Number of Board and Senior Management Approvals in 2024 and 2025

	2024	2025
Number of Board approvals	**20**	**12**
Foreigners	4	5
Locals	16	7
Number of senior management approvals	**17**	**26**
Foreigners	2	6
Locals	15	20
Total number of approvals	**37**	**38**

Source: Bank of Botswana.

CHAPTER 5

OTHER SUPERVISORY ACTIVITIES

CHAPTER 5
OTHER SUPERVISORY ACTIVITIES

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

5.1 The Basel Committee on Banking Supervision (BCBS) issued new and revised guidelines and standards for the regulation and supervision of banks and banking groups. The following reports, guidelines and standards were issued in 2025:

(a) Revised principles for the management of credit risk 30 April 2025; the principles provide guidelines for banking supervisors to evaluate banks' credit-risk management processes in four key areas: (i) establishing a suitable credit risk environment; (ii) operating under a sound credit-granting process; (iii) maintaining an appropriate credit administration, measurement and monitoring process; and (iv) ensuring adequate controls over credit risk. The principles were first published 25 years ago and have been updated after a review intended to align them with the current Basel framework and the latest guidelines issued by the BCBS.

(b) A Framework for the Voluntary Disclosure of Climate-related Financial Risks on 13 June 2025, which includes both qualitative and quantitative information. The framework will be voluntary; jurisdictions would consider whether to implement it. BCBS acknowledges that the accuracy, consistency and quality of climate-related data are evolving, and therefore it is necessary to incorporate a reasonable level of flexibility into the final framework.

(c) Principles for the sound management of third-party risk on 10 December 2025. The principles establish a common baseline for banks and supervisors for the sound management of the third-party risk. The ongoing digitalisation of finance has led to a rapid adoption of innovative approaches, which has increased banks' dependence on third-party service providers for services that banks had previously not undertaken. In response, BCBS has developed a new set of principles to reflect a larger and more diverse environment for third-party service providers in the banking system.

5.2 In addition, the BCBS issued, for consultation, the following standards during 2025:

(a) A consultation paper on machine-readable Pillar 3 disclosure was issued on 5 December 2025. The consultation paper proposes to make the data disclosed by banks (Pillar 3 disclosures) available in a machine-readable format. Pillar 3 disclosures by internationally active banks under the Basel Committee's standards are an important source of key risk metrics. Most banks, however, publish their disclosures in PDF format only, which makes it difficult to aggregate, process and compare data across banks. To make Pillar 3 disclosure data more accessible, the BCBS is proposing that they should be made available in standardised machine-readable formats across its member jurisdictions. The proposed standard would introduce a requirement and technical specifications to produce machine-readable quantitative Pillar 3 disclosures without changing the underlying disclosure requirements for banks. Supervisors would decide whether banks should publish machine-readable Pillar 3 disclosures on their own websites or via a centralised data repository.

PARTICIPATION IN INTERNATIONAL AND DOMESTIC REGULATORY AND SUPERVISORY FORUMS

Supervisory Colleges

5.3 Supervisory college meetings are consistent with core principle 13 of the Basel Core Principles for Effective Banking Supervision; the principle requires home supervisors to establish bank-specific supervisory college meetings (for banking groups with host supervisors). The objectives of a supervisory college are to assist supervisors in understanding the risk profile of the banking group, exchange information and encourage cooperation with a view to enhancing supervision, especially cross-border supervision. The Bank participated in four supervisory colleges[19] in 2025.

5.4 The Bank participated in the supervisory college meeting of FirstRand Limited (FirstRand), the holding company of one bank operating in Botswana. The meeting was hosted by the Prudential Authority (PA) of the South African Reserve Bank (SARB).

5.5 It was reported that the group's strategy focused on building a future of shared prosperity through enriching the lives of customers, employees and the societies served, while creating long-term value and attaining sustainable returns.

5.6 The key supervisory concerns raised by regulators, some of which relate to Botswana include high management fees for subsidiaries, inadequate succession planning, increasing cybersecurity and third-party risks, inadequate suspicious transactions reporting and climate-risk management.

5.7 Overall, it was indicated that the group was performing satisfactorily, liquid and adequately capitalised.

5.8 The PA of the SARB hosted a supervisory college for Absa Group Limited (AGL), the parent company of another bank operating in Botswana. The PA is responsible for consolidated supervisory oversight of the banking group. The meeting was attended by all the nine host supervisors of the AGL subsidiaries. AGL subsidiaries are classified as domestic systemically important banks across all the jurisdictions. Given AGL's systemic importance across the region, effective cross-border supervision is crucial and includes coordination through supervisory colleges, crisis simulations and resolution planning, which are essential for managing contagion risk and safeguarding financial stability.

5.9 It was reported that AGL performed satisfactorily in the 2024 financial year despite the challenging macroeconomic conditions characterised by heightened global inflation, geopolitical tensions and increasing sovereign risks.

5.10 Key thematic supervisory concerns across the banking group included an increase in NPLs, as well as high credit and deposit concentration risks. Moreover, the cost of funding remained high, putting additional pressure on margins and overall profitability. Host supervisors also highlighted concerns regarding an increase in group recharges, which further compressed profit margins. Another notable concern related to limited subsidiary autonomy, as most information technology support is provided centrally by the group, leading to higher costs for subsidiaries despite the availability of local service providers.

[19] Supervisory colleges are working groups of supervisors formed under the aegis of the BCBS to enhance the consolidated supervision of internationally active banking groups.

5.11 The AGL supervisory college was well-structured and provided a platform for participants to exchange useful information regarding the risk profiles and vulnerabilities of the banking group.

5.12 The PA of the SARB hosted a supervisory college for Standard Bank Group (SBG), the parent company of the third bank operating in Botswana. The PA of the SARB, as the home supervisor of SBG, is responsible for consolidated supervisory oversight of the banking group.

5.13 The supervisory college highlighted several important concerns requiring intensified oversight. Governance weaknesses, elevated credit risk, high liquidity risk, significant operational risk and ML/FT risk were prevalent across multiple subsidiaries, except in Botswana and in South Africa; also noted were deficiencies in board oversight and excessive influence from group management, while succession planning was observed to be a recurring vulnerability in some jurisdictions.

5.14 The Bank attended another supervisory college in 2025 of Capricorn Investment Group Limited (Capricorn Group), which has a subsidiary operating in Botswana. The primary objective of the college was to review Capricorn Group's strategy, financial performance, and risk profile, while providing regulators with an opportunity to engage directly with the group on key strategic, financial, and risk matters. The group's strategy centres on six key priorities: expanding business portfolio through innovative growth initiatives; driving business transformation; integrating sustainability to create competitive advantages while safeguarding the environment; promoting diversity, equity, and inclusion across operations; developing leadership capabilities; and strengthening brand management.

5.15 Regulators urged the group to strengthen its risk management practices to mitigate emerging risks, particularly those related to cybersecurity and the adoption of artificial intelligence in banking operations. Further, there was shared concern from the regulators regarding heavy reliance on the group for cybersecurity and information-technology support as well as audit services, which may limit accountability at subsidiaries and impede skills transfer. In addition, evidence of a weak compliance culture was noted, and multiple regulatory sanctions were imposed across the group. The regulators agreed on the need to strengthen information-sharing to promote greater transparency among regulatory bodies.

5.16 Supervisory colleges were well-structured and provided a platform for participants to exchange useful information regarding the risk profiles and vulnerabilities of the banking groups.

Cross-border Supervision

5.17 The Bank in collaboration with the Reserve Bank of Malawi conducted a joint on-site examination of a subsidiary of FMB Capital Holdings Plc on 5–16 May 2025.

Other Supervisory Matters

5.18 The Banking Act and the associated Banking Regulations, Banking (Deposit-taking Institutions) Regulations, and Banking (Appeals Tribunal) Regulations commenced on 15 August 2025. The Banking Act was the result of the revision of the Banking Act, 1995 (Cap. 46:04) to align it with the evolving developments in the domestic and global financial systems, including compliance with minimum international standards for effective banking supervision and fostering financial stability. Its commencement simultaneously repealed the Banking Act (Cap. 46:04).

5.19 The Bank issued Guidelines on Liquidity Coverage Ratio (LCR) on 1 May 2025 for implementation from 1 December 2025. The objective of LCR is to promote short-term resilience of banks to liquidity shocks, which is achieved by requiring banks to hold adequate stock of unencumbered high-quality liquid assets, convertible into cash to meet its liquidity needs for a 30 calendar-day liquidity stress scenario.

BOX 4: INTEROPERABILITY IN THE NATIONAL PAYMENT SYSTEMS: BENEFITS, RISKS AND SUPERVISORY EXPECTATIONS

1. Introduction

In today's digital economy, the value of money depends not only on its creation but on how seamlessly it moves. As payment systems expand and new players emerge, fragmented platforms risk creating digital silos that undermine efficiency, inclusion and trust (Harichandana, 2025). While digital adoption has increased, persistent inefficiencies in Botswana's payment landscape continue to limit the efficiency, inclusivity and convenience that a well functioning cash-lite economy can deliver.

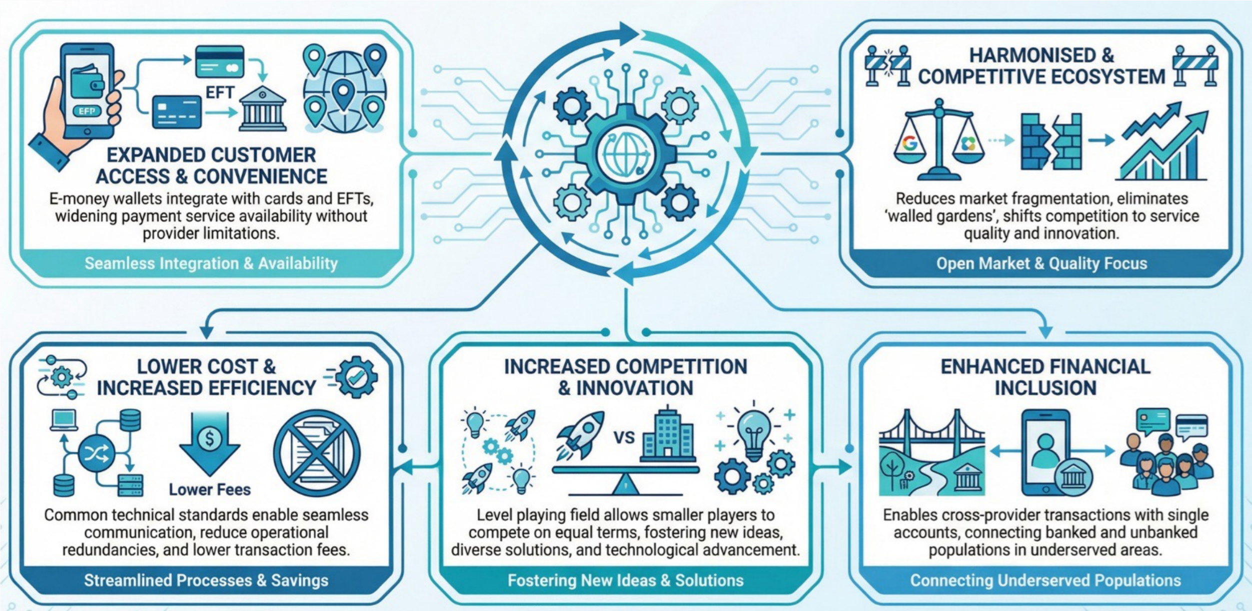
Interoperability in the National Payments System (NPS) has therefore become a key policy priority. It is a mechanism that enables seamless transactions across diverse banks, electronic money (e-money) issuers, and payment platforms, supporting the efficient circulation of value in the economy. This article examines the strategic importance of interoperability, the specific challenges facing the domestic market, and the supervisory requirements set forth to address them.

2. Understanding Interoperability

The Committee on Payments and Market Infrastructures (CPMI) defines interoperability as the technical or legal compatibility that allows one system or mechanism to be used in conjunction with other systems (Committee on Payments and Market Infrastructures Working Group, 2022). This capability enables participants to clear and settle transactions across multiple systems without the need to join each one individually or join multiple systems.

From a policy perspective, interoperability is technologically agnostic; it does not prescribe a specific infrastructure but rather requires the capability for users to send and receive funds across different providers and channels (such as automated teller machines, point-of-sale (PoS) devices and mobile wallets) without holding multiple accounts. It ensures that a customer of one bank or mobile network operator can transact effortlessly with a customer of another, removing artificial barriers to trade and financial interaction. Interoperability serves as the bridge that transforms isolated payment islands into a cohesive financial network (Garcia Arabehety, et al., 2016). It strengthens NPS by enabling seamless connectivity across platforms and providers. The key benefits are outlined in Figure 1.

Figure 1: Benefits of Interoperability



(Bank of Botswana, 2025); (Bank Namibia, 2018); (Reserve Bank of South Africa, 2025)

3. **Risks and Mitigation**

While interoperability delivers significant benefits, it also introduces risks that require strong regulatory oversight and sound operational controls. The Bank's supervisory framework emphasises the following areas:

Table 1: Risks and Mitigation

Risk/Consideration Category	Description	Mitigation Strategy
Fraud and Security Vulnerabilities	Increased interconnectedness expands the potential "attack surface," allowing vulnerabilities in one participant's system to potentially affect the wider network. Real-time payments can further heighten this risk by enabling the rapid movement of illicit funds.	Rigorous cybersecurity standards and real-time fraud monitoring.
Operational and Systemic Risks	Greater interdependencies mean that operational failures may be propagated across the network, especially where legacy banking systems interface with modern fintech platforms (Wang & Ni, 2025).	Robust business continuity planning and system redundancy requirements.
Regulatory and Compliance Gaps	Weak harmonisation of requirements may reduce end-to-end transaction visibility, creating gaps in AML/CFT (anti-money laundering/combating the financing of terrorism) oversight (Financial Stability Board , 2024).	Uniform compliance standards across all participants.
Innovation and Investment Considerations	While lowering barriers to entry, obliged interoperability must balance access with incentives for investment (OECD, 2021). The regulatory framework aims to ensure that "free-riding" is minimised and that fair compensation models encourage continued investment in system improvements.	Fair compensation models to encourage continued investment in system improvements.
Implementation Costs	Compliance with new standards and the integration of systems impose costs on participants (OECD, 2014). The Bank monitors these costs to ensure that they are not disproportionately passed on to consumers, while acknowledging the long-term efficiency gains that offset initial outlays.	A phased implementation approach to manage costs and technical burden.

4. The State of Interoperability in Botswana

Despite the proliferation of digital financial services, Botswana's payments landscape remains fragmented, characterised by significant inefficiencies that slow economic activity. The current state presents several critical challenges (Bank of Botswana, 2025):

- Market Fragmentation

  Interoperability between banks and mobile network operator (MNO) wallets is achieved largely through bilateral commercial arrangements rather than through a coordinated system-wide framework. These arrangements are limited in scope and uneven in coverage. Crucially, interoperability between e-money issuers themselves remains largely absent; cross-wallet transfers are unavailable.

- Absence of Instant Payments

  Unlike leading digital economies, Botswana lacks a fully interoperable and universally accessible real-time retail payment rail linking all institutions. Transfers between banks or between bank accounts and wallets can suffer from settlement delays, making digital payments less attractive than cash for immediate needs.

- High Transaction Costs

  In the absence of unified infrastructure, consumers are exposed to off-us fees and tiered pricing structures that render cross-network transactions costly, especially for low-value payments that dominate everyday economic activity.

- Limited Merchant Acceptance

  Merchant payment acceptance devices such as PoS are often proprietary to specific acquiring banks, thus limiting the ability of smaller merchants to accept payments from diverse mobile wallets. This fragmentation restricts the growth of digital commerce and compels consumers to rely on cash for everyday transactions.

- Persistent Reliance on Cash

  As a direct result of frictions such as fragmentation, delays and costs, cash remains the dominant medium of exchange. A "cash-heavy" economy imposes significant cash-handling costs on businesses and banks.

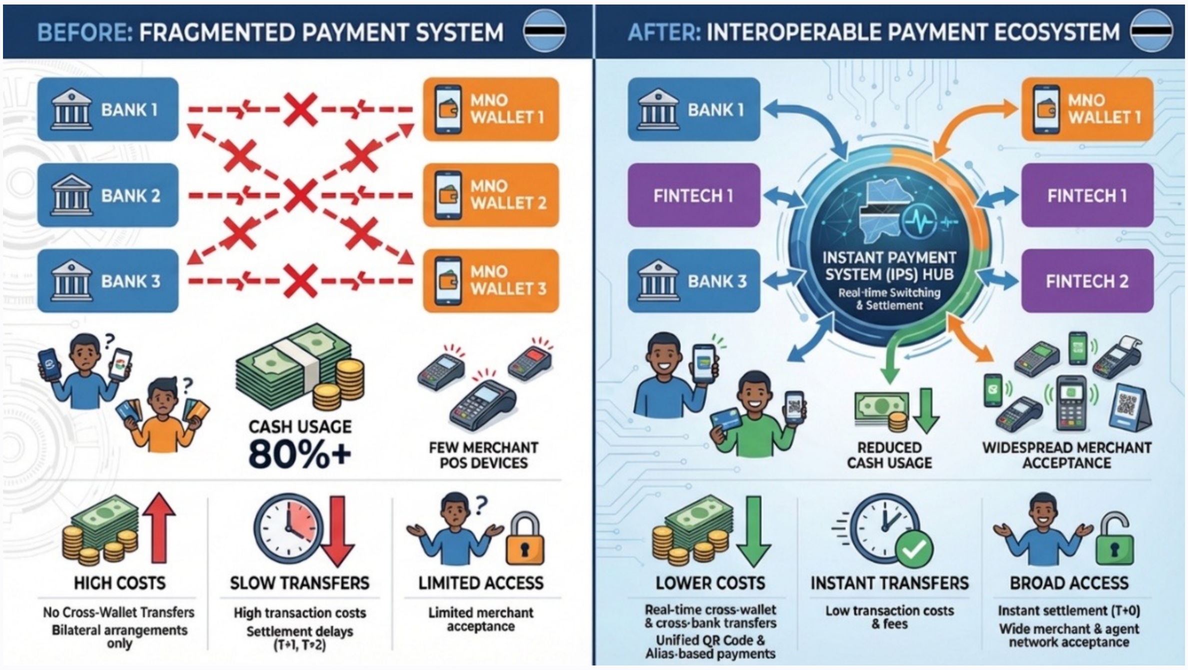
5. **The Bank's Regulatory Intervention**

To address the gaps, the Bank issued a directive mandating all banks and licensed e-money issuers to implement interoperability. This directive requires seamless connectivity between e-money accounts across different issuers (cross-wallet transfers or wallet-to-wallet) and bank accounts and e-money accounts (bank-to-wallet and wallet-to-bank).

Achieving full interoperability in Botswana's NPS follows a two-pronged approach. In the short term, the Bank's directive requires seamless connectivity between banks and e-money issuers, while over the longer term, the Bank is working toward establishing a National Retail Payment Switch that will serve as a centralised infrastructure connecting all participants, enabling real-time transactions, reducing costs through economies of scale, and providing the foundation for advanced payment services.

This initiative establishes a centralised public utility that replaces inefficient fragmented bilateral connections with a streamlined hub-and-spoke architecture through a single integration point that eliminates costly multiple connections, enabling seamless interoperability across financial institutions and electronic payment-services providers (see Figure 2).

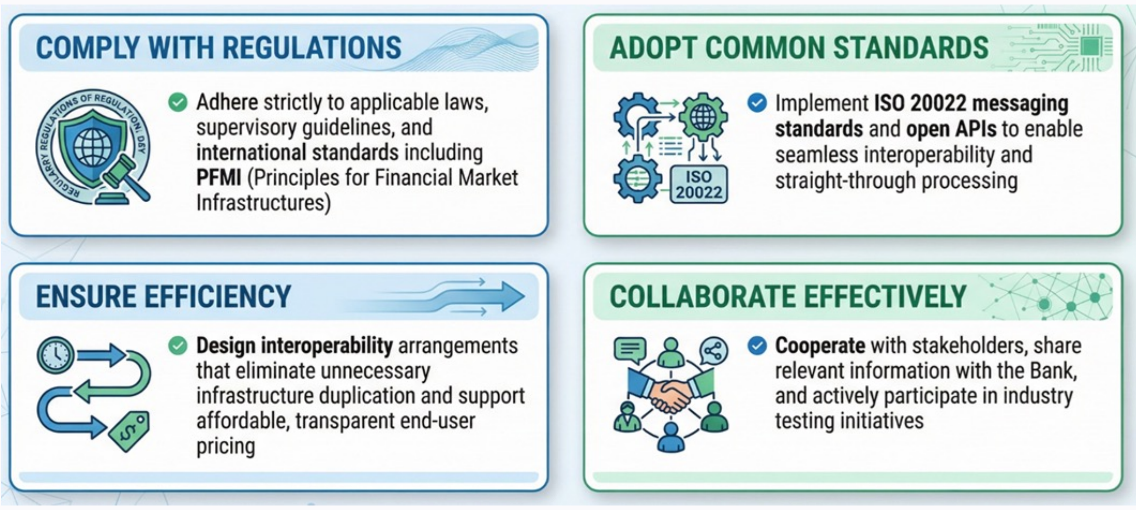
Figure 2: The National Retail Payment Switch: The Path to Full Interoperability



6. **Supervisory Expectations**

To ensure that interoperability is safe, efficient, and sustainable, the Bank has established clear supervisory expectations. Supervisors expect the payment-system operators and participants to meet the following as indicated in Figure 3:

Figure 3: Core Principles for a Seamless and Secure Financial Ecosystem



Bank of Botswana, 2025)

7. **Conclusion**

The central bank plays an essential catalytic role in promoting interoperability where it does not emerge naturally. Strengthening interoperability is essential to prevent fragmentation, reduce inefficiencies, and support a competitive, an inclusive, and a resilient NPS. The Bank remains committed to rigorous supervision to ensure that the transition to a fully interoperable ecosystem is managed safely. By introducing these changes, the Bank envisions a modern payment landscape that serves the needs of all Batswana, fostering trust and driving sustainable economic growth in the digital era.

8. **References**

Bank Namibia, 2018. *Position Paper on Interoperability in the National Payment System*, s.l.: Bank of Namibia.

Bank of Botswana, 2025. *Directive on Interoperability between Banks and Electronic Money Issuers,* Gaborone: Prudential Authority and Payments Oversight Department.

Committee on Payments and Market Infrastructures Working Group, 2022. *Improving access to payment systems for cross-border payments: best practices for self-assessments*, Switzerland: Bank for International Settlements.

Financial Stability Board , 2024. *Recommendations to Promote Alignment and Interoperability Across Data Frameworks Related to Cross-border Payments*, Switzerland.: Financial Stability Board.

Garcia Arabehety, P., Chen, G., Cook, W. & McKay, C., 2016. *Digital Finance Interoperability & Financial Inclusion: A 20-Country Scan*, Washington, DC: Consultative Group to Assist the Poor (CGAP).

Harichandana, A. D., 2025. Digital Payment Adoption in Emerging Markets. *International Journal on Science and Technology* (IJSAT), 16(3), pp. 1-77.

OECD, 2014. *OECD Regulatory Compliance Cost Assessment Guidance,* Paris: OECD Publishing.

OECD, 2021. *Data portability, interoperability and digital platform competition*, s.l.: OECD Competition Committee Discussion Paper.

Reserve Bank of South Africa, 2025. *Consultation paper on interoperability in the national payment system*, s.l.: National Payment System Department.

Wang, W. & Ni, H., 2025. Financial connectedness in the digital age: The impact of regional FinTech development. *Economic Modelling*, 152(107290).

CHAPTER 6

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

Prudential Supervision On-Site Examination

Banks

6.1 The Bank carried out a cybersecurity on-site examination of one commercial bank and a targeted on-site examination of one statutory bank in 2025. The cybersecurity on-site examination evaluated the bank's compliance with the Banking Act and Guidelines on Cybersecurity and Resilience. The targeted on-site examination assessed the bank's governance/strategic, liquidity and operational risks, against the backdrop of senior management suspensions at the bank, breach of the liquid asset ratio (LAR) in May 2024, and noted operational risk deficiencies. The reports for the examination of the two banks were completed and submitted to the banks.

6.2 Key findings from the on-site examination are presented below and the on-site examination ratings in Appendix 8.

Cyber-security Risk

6.3 The bank defined and documented information technology (IT) and cybersecurity strategies that were formulated at the group and cascaded to the Botswana subsidiary. A key concern was the lack of evidence that the group cybersecurity/IT strategy was tailored to the local market.

6.4 The oversight of technology and cybersecurity risk was predominantly exercised at the group level by the board and its sub-committees; certain bank employees participated as members of these governance bodies. At the local level, the Board Risk and Compliance Committee was responsible for overseeing all risk categories, including cyber risk, albeit to a limited extent. It was found that the board had limited knowledge and skills in cybersecurity, which could hinder the board's ability to understand and assess cybersecurity risks faced by the bank.

6.5 Regarding staffing, the bank did not have a chief information security officer (CISO) or a dedicated cybersecurity team, thus limiting strategic oversight of cyber risks and heightening exposure to potential attacks. Oversight on cybersecurity risks was provided by the group cybersecurity function, led by the group CISO. Further, the bank's IT function had six staff members, including the head of IT. Considering the bank's operations, size and IT infrastructure, the function was deemed under-resourced to adequately provide support to the entire bank. Further, the head of IT was not a member of senior management and reported to the chief operating officer, which diverged from the group's organisational structure, where IT leadership holds executive-level responsibilities.

6.6 Other concerns included (a) an under-resourced audit function, which also lacked the necessary skills for cybersecurity audit; (b) decentralised monitoring of IT assets; and (c) third-party risk due to outsourced systems, such as card and payroll systems.

Targeted On-site Examination

Governance/Strategic Risk

6.7 The examination revealed weaknesses in the statutory bank's governance arrangements, covering board composition, competence, oversight of management, compliance, risk management, and strategic governance. The board operated below the statutory minimum of nine members, with six members (one executive director and five non-executive directors). Further, the board had vacancies that dated as far back as two years and high turnover since appointments of majority of board members were not staggered; at the time of the examination, two board members' tenure were expiring around the same time (31 August and 31 October 2025), thus compromising continuity.

6.8 The bank's risk management had material deficiencies, as the bank did not have a comprehensive risk appetite statement, which highlighted capacity, appetite and tolerance levels for the bank's key risks. Training in risk management had not been rolled out across the bank, despite repeated board requests. It was observed that, although the bank's head office was housed in an old building, the structure had not been assessed. Further, as at the examination time, the statutory bank was unable to provide fraud and operational loss reports, raising concerns about data availability and integrity.

Liquidity Risk

6.9 There was noted credit concentration on the bank's unsecured loans, and the loan book comprised personal loans, residential loans and motor vehicle loans, while its balance sheet exhibited significant maturity and pricing mismatches. Regarding maturity mismatches, most of the assets had maturities of over one year, largely in the over-five-year category, while most of the liabilities had maturities of below one year, mostly up to three months.

6.10 Regarding funding, the bank's 20 largest deposits accounted for 59.5 percent of total deposits, signifying overreliance on unstable and volatile corporate deposits. The high funding-concentration risk, a prevailing and longstanding observation in the bank's funding structure, exposes the bank to wholesale-deposit flight risk, thus exacerbating its exposure to the liquidity risk.

Operational Risk

6.11 The bank relied heavily on manual processes, which increases the risk of human error, data inconsistencies, and financial loss. Further, the bank did not conduct third-party risk assessment on an ongoing basis. The assessment was considered only at on-boarding, which exposes the bank to legal and reputational risk. In addition, physical and security gaps that were noted included lack of seismic detectors, anti-pass-back[20] function, loose electrical cables in the ATM and server rooms, lack of alarm triggers for the server-room cooling systems, vulnerabilities in emergency exit doors and uncontrolled access points.

[20] Anti-pass-back is a security feature in access control systems that prevents cardholders from passing their access card to a second person or entering a controlled area without having first exited it.

6.12 Oversight of the bank's operational risk was provided by the Board Risk and Compliance Committee. There was, however, no dedicated management-level committee for this function. While a three-line-of-defence model was in place, the risk taxonomy was incomplete, lacking critical categories like credit, market, and emerging risks. The internal audit function was unable to conduct a planned audit of finance operations and failed to identify significant control lapses during branch audits. The bank also had high staff turnover in the internal audit function, which negatively affected the execution of planned audits.

Consumer Compliance On-site Examination

Banks

6.13 In 2025, consumer-compliance on-site examination was conducted at two commercial banks and one statutory bank. Overall, the examination of the banks revealed availability of comprehensive policies and procedures, and they had complied with most consumer compliance standards except for the contraventions shown in Table 6.1. The institutions were directed to implement corrective measures within prescribed timelines. In addition, the two commercial banks were fined P103 000 and P100 000, respectively, for the contraventions. Table 6.1 summarises the violations noted.

Table 6.1: Contravention of Consumer Compliance Standards in 2025

Institution	Section Contravened	Description
Bank 1	Disclosure of Bank Charges Notice GN. No. 41 of 2001	Customers were not provided with a tariff guide at account opening The bank could not demonstrate the calculation of the annual percentage rate The bank neither calculated nor disclosed the annual percentage yields for deposit accounts Some narrations of the charges in the customer statements did not conform to those in the approved tariff guide
	Disclosure for Deposit and Lending Interest Rates. RG 01/11/2022	Customers were not provided with copies of fixed-deposit confirmations/certificate of deposits The certificate of deposit reflected a lower interest rate than the agreed rate on the account opening form
	Prescription of Notice Period and Early Settlement Penalties for Term Loans and Similar Credit Facilities: Government Notice No. 111 of 2011	The bank quoted a higher accrued interest in the settlement balance letters than the applicable interest rate Some customers were charged a settlement penalty despite having given the bank requisite 45-day notice

Bank 2	Administration of Dormant/ Abandoned Funds: Section 39(1) of the Banking Act. (Cap. 46:04)	Some unclaimed funds were held longer than the 10-year period stipulated under Section 39 of the Banking Act
	Disclosure of Bank charges Notice GN. No. 41 of 2001	Customers were not provided with a tariff guide at account opening Despite the bank's decision to discontinue billing service fees at the end of the billing cycle, some customers were being billed at the end of the billing cycle The interest on debit balances and penalty interest on overdrawn transactional accounts, and the basis of their computation were not stipulated in the terms and conditions, in contravention of item 9 of the Government Notice No. 41 of 2001. Further, the fees were not approved by the Bank Most narrations in the customer statement were inconsistent with the descriptions in the tariff guide There were instances where the loan amount, instalment, finance charges, and pay-off amounts differed from those in the customer agreement The bank neither calculated nor disclosed the annual percentage yield for deposit accounts Interim interest for motor vehicle loan accounts was inaccurately computed The bank levied higher loan documentation fees than the approved limit for motor vehicle loan facilities The annual percentage rate was inaccurately calculated
	Disclosure for Deposit and Lending Interest Rates. RG 01/11/2022	The deposit interest rates for foreign-currency denominated, lending interest rates, minimum opening balance of business accounts and foreign-exchange rates were not displayed in the banking halls contrary to the disclosure requirement The bank did not accurately compute the term breaking fee for certain accounts and withholding tax on some retail and foreign currency accounts
	Prescription of Notice Period and Early Settlement Penalties for Term Loans and Similar Credit Facilities: Government Notice No. 111 of 2011	The bank did not retain copies of settlement quotations issued to customers to facilitate assessment of the administration of early settlement penalties by the Bank The bank did not issue settlement quotations to customers obtaining top-up loans

Bank 3	Disclosure of Bank charges Notice GN. No. 41 of 2001	Customers were not provided with a tariff guide at account opening Narrations on the statements indicated that value added tax (VAT) was charged 12 percent while the actual computed VAT was 14 percent Annual percentage rates were not accurately calculated on loans The Bank did not adjust the VAT from 14 percent to 12 percent after the revision of the same in February 2023
	Disclosure for Deposit and Lending Interest Rates. RG 01/11/2022	Lending interest rates, deposit interest rates and minimum opening balances of accounts were not displayed in the banking halls as required
	Prescription of Notice Period and Early Settlement Penalties for Term Loans and Similar Credit Facilities: Government Notice No. 111 of 2011	The bank did not retain copies of settlement quotations issued to customers to facilitate verification of the administration of early settlement penalties Customers obtaining top-up loans were not provided with settlement quotations

Source: Bank of Botswana.

AML/CFT/CPF On-site Examination

Banks

6.14 The Bank conducted AML/CFT/CPF on-site examination of two commercial banks and one statutory bank during the year in accordance with Section 49 of the FI Act. The Bank also conducted a joint on-site examination of one bank with the Reserve Bank of Malawi. The primary examination objective was to evaluate the adequacy of AML/CFT/CPF systems, processes and procedures implemented by banks and to determine whether the processes and procedures were in accordance with the requirements outlined in the FI Act.

6.15 The on-site examination of the first commercial bank revealed that there were notable deficiencies in the bank's processes and procedures for identifying high-risk customers, prominent influential persons (PIPs), ultimate beneficial owners (UBOs) of companies, trusts and individuals in the United Nations Security Council Resolution Targeted Financial Sanctions (UNSCR-TFS). Further, the bank was found to have weaknesses in the identification, monitoring and reporting of suspicious transactions. The bank had also contravened various sections of the FI Act as presented in Table 6.2, which resulted in the Bank imposing a fine of P250 000 on the bank, the payment of which was received on 30 June 2025.

Table 6.2: Contraventions of Sections of the FI Act and Monetary Penalties Imposed

Contravention	Section Contravened	Administrative Fine to be Levied
Failure to conduct ongoing due diligence for high-risk customers and PIPs, and failure to obtain senior management approval, when establishing business relationships with some high-risk customers	Section 19(1) and Section 20(1)(d) of the FI Act, 2022	P50 000.00
Failure to identify UBOs of some companies, trusts and non-profit organisations	Section 20(1)(b) of the FI Act, 2022	P50 000.00
Failure to report suspicious transactions reports within the five-day reporting period	Section 38(1) of the FI Act, 2022 and Regulation 22(1) of the Financial Intelligence Regulations (FI Regulations)	P100 000.00
Failure to screen some shareholders and directors of some businesses, trustees, and beneficiaries of trust accounts against the UNSCR-TFS lists on an ongoing basis	Regulation 21(1) of the FI Regulations and Section 29(1) of the FI Act.	P50 000.00
Failure to identify PIPs with a turnover of P1 million	Section 22 of the FI Act	P0-00
Failure to provide accurate information to the Bank	Section 21(1) of the Banking Act	P0-00
Total		**P250 000.00**

Source: Bank of Botswana.

6.16 The bank was further directed to rectify all supervisory concerns within 12 months, specifically by 30 June 2026 and to submit quarterly progress reports to the Bank.

6.17 The second commercial bank's on-site examination was a follow-up to the previous one in 2023. The examination noted that the bank had not resolved the deficiencies identified in the previous examination, such as failure to identify UBOs of some companies and trusts, maintaining of business relationships with unregistered trusts, delayed analysis of alerts, and the reporting of suspicious transactions beyond the required time frame. Consequently, the bank was found to have contravened several sections of the FI Act, as shown in the Table 6.3. As a result, the bank was fined P800 000 paid on 15 December 2025.

Table 6.3: Contraventions of Sections of the FI Act and Monetary Penalties Imposed

Contravention	Section Contravened	Administrative Fine to be Levied
Failure to identify UBOs of some companies and trust entities (recurring)	Section 20(1)(b) of the FI Act	P200 000.00
Maintaining business relationships with trusts that were not registered with the master (recurring)	Sections 4(1) of the Trust Property Control Act, 2022	P200 000.00
Failure to screen some shareholders and directors of some businesses, trustees and beneficiaries of trust accounts against the UNSCR-TFS lists on an ongoing basis (recurring)	Regulation 21(1) of the Financial Intelligence (Implementation of United Nations Security Council Resolutions)	P200 000.00
Failure to report suspicious transactions to FIA within the five-day reporting period (recurring)	Section 38(1) of the FI Act, 2022 and Regulation 22(1) of the Financial Intelligence Regulations	P200 000.00
Total		**P800 000.00**

Source: Bank of Botswana.

6.18 The on-site examination of the statutory bank identified deficiencies in its AML/CFT/CPF processes and procedures. The major supervisory concerns included failure by the AML/CFT compliance function to effectively carry out its key responsibilities; failure to conduct a comprehensive internal risk assessment, deficiencies in the AML/CFT/CPF policy, failure to obtain companies' re-registration certificates for some companies and to maintain current information and records of customers and beneficial owners, as well as to conduct ongoing customer due-diligence reviews leading to the retention of invalid and outdated customer information.

6.19 The statutory bank contravened various Sections of the FI Act as presented in Table 6.4.

Table 6.4: Contraventions of Sections of the FI Act

Contravention	Section Contravened
Failure to conduct money laundering/ terrorist financing/ proliferation financing (ML/TF/PF) risk assessment for products, services and delivery channels offered by the bank	Section 13
Failure to maintain current information and records of customers and beneficial owners	Section 19
Failure to identify beneficial owners of some companies	Section 20(1)(b)
Failure to respond to the UNSCR-TFS notifications list within the required eight-hour timeframe	Regulation 11(5) of the FI UNSCR-TFS Regulations

Source: Bank of Botswana.

6.20 The bank was directed to remedy all supervisory concerns within 12 months, specifically by 30 September 2026 and submit quarterly progress reports to the Bank, effective from 31 December 2025. The bank was informed that failure to rectify all deficiencies by the stipulated date would result in the Bank imposing a monetary fine for non-compliance with the FI Act.

6.21 For the joint on-site examination, minor deficiencies in the bank's AML/CFT were identified. The bank's product risk assessment tool was found to primarily assess overall risk including financial crimes, market conduct, data protection, regulatory compliance, and systems rather than specifically addressing ML/TF/PF risk-rating assessment for products, services and delivery channels as prescribed under section 13 of the FI Act. In addition, it was observed that not all products, services, and delivery channels had been assessed for ML/TF/PF risks. Deficiencies were also noted regarding customer due diligence, including inadequate verification of the source of funds for some customers, maintenance of outdated or expired documentation, and missing know-your-customer and customer due-diligence documentation in some customer files. Further, the examination showed a backlog of alerts that had been outstanding for 16 days or more, contrary to the requirement of the Bank's guidelines on identification, monitoring and reporting of suspicious transactions, which prescribe that suspicious activity should be reported within five days of the transaction date. While no charges for contravention were brought against the bank, it was directed to remedy all supervisory concerns.

Non-bank Financial Institutions

6.22 In 2025, the Bank also conducted AML/CFT/CPF on-site examination of three non-bank financial institutions (NBFIs). Two of the examined institutions operate as EPS providers as well as bureaux de change, while one operates solely as an EPS provider.

6.23 A full-scope AML/CFT on-site examination of the first NBFI observed deficiencies in the entity's processes and procedures in identifying PIPs, UBOs and other high-risk customers; the application of enhanced due-diligence measures; screening of customers against the UNSCR-TFS lists; and identification, monitoring and reporting of suspicious transactions. In the light of the identified shortcomings, the NBFI was directed to remedy all supervisory concerns by 30 June 2026. Consequently, the entity was directed to submit progress updates to the Bank until all deficiencies are satisfactorily addressed.

6.24 The second NBFI was found to have contravened various sections of the FI Act as indicated in Table 6.5. Consequently, a supervisory fine of P80 000 was imposed for non-compliance. The entity was further directed to remedy all supervisory concerns by 31 December 2026 and submit quarterly progress reports to the Bank effective from 31 March 2026. Overall, the NBFI's effectiveness of AML/CFT risk-management practices and controls were rated weak.

Table 6.5: Contraventions of Sections of the FI Act

Contravention	Section Contravened
Failure to identify all natural persons who directly or indirectly held more than 10 percent shares, voting rights, or other ownership interest in a company that has established a business relationship with the NBFI.	Section 20(1)(b)
Failure to identify and report to FIA all large-cash transactions (LCTs) and international funds transfers (IFTs) and failure to resubmit all LCTs and IFTs rejected by the go-AML during the review period.	Sections 39 and 42
Failure to collect key mandatory information, such as the beneficiary's date of birth, identity-card number or passport number, and contact details.	Regulation 25(2) of the FI Regulations
Failure to screen all customers on an ongoing basis against the UNSCR-TFS.	Regulation 21(1) of the FI UNSCR Regulations
Failure to provide all the essential customer details and transaction histories due to MoneyGram and Budecas systems significant limitations in extracting the information as requested	Section 36

Source: Bank of Botswana.

6.25 For the third NBFI, the examination assessed its compliance with AML/CFT laws, adequacy of internal controls, and the effectiveness of it risk management practices.

6.26 Overall, the on-site examination revealed deficiencies in the NBFI's AML/CFT/CPF compliance framework. Key weaknesses were observed in governance and policy oversight, customer risk rating and due diligence processes, identification of ultimate beneficial ownership, agent training, suspicious transaction monitoring, and compliance with regulatory reporting obligations. The NBFI was directed to remedy all identified deficiencies and strengthen its AML/CFT/CPF compliance framework by 31 December 2026. Failure to fully address the supervisory concerns by 31 December 2026 will result in the Bank imposing a monetary supervisory fine. The NBFI was further required to submit quarterly progress reports to the Bank, effective 30 June 2026.

CONSULTATIVE AND PRUDENTIAL MEETINGS

6.27 Prudential bilateral and statutory trilateral meetings were held in 2025, during which banks presented a review of their business strategies for the previous year(s) and those for the ensuing period, together with their financial year-end results. Statutory bilateral meetings were held with external auditors to discuss audit strategies for banks and matters of mutual supervisory interest.

BOX 5: CONVENTIONAL SUPERVISION VERSUS SUPERVISORY TECHNOLOGY, WHY CENTRAL BANKS MUST UPGRADE SUPERVISION WITH AI-POWERED SUPTECH BEFORE THE GAP WIDENS

Introduction

The increasing complexity of financial systems, rapid digital innovation, dynamic markets, massive data volumes and evolving risks, has necessitated a transformation in regulatory and supervisory approaches, placing significant pressure to upgrade traditional supervisory approaches. In this context, reliance on manual, periodic and fragmented supervisory processes creates operational gaps that can delay risk identification and weaken supervisory effectiveness.

Supervisory technology (SupTech) is emerging as a credible pathway to close gaps in modern oversight and it has the potential to enhance risk detection and deliver more efficient, responsive and resilient supervision. SupTech refers to the use of innovative technologies by supervisory authorities to transform regulatory processes, such as data collection and validation, risk analytics, risk modelling and reporting.

The Growing Imperative for SupTech

Two trends are now converging. First, the growth of artificial intelligence (AI) has catalysed technological developments and caused a surge in technology-enabled risks, cyber incidents, fraud typologies, and AI-enabled misconduct. Similarly, even the platforms traditionally used for supervision are shifting to AI-powered tools, with the Microsoft Office suite used for traditional supervision incorporating Copilot, an AI-based large language model used for natural language processing (NLP). These developments, although necessary, could create an environment where risks can emerge and spread faster than periodic supervisory cycles can reasonably detect.

Second, data growth and the shift to digital delivery channels have increased the need for timely, granular information, yet many supervisory processes still depend on manual collection, semi-automated validation, and spreadsheet-based analysis. The supervisory case for acting urgently becomes straightforward: as data volumes grow and risks evolve, supervisory processes that remain manual and spreadsheet-driven become less scalable and increasingly prone to delay, inconsistency and operational gaps. Accordingly, the modernisation of supervisory processes is long overdue.

A 2024 study by the International Monetary Funds (IMF) found that 164 financial authorities in 105 countries had implemented SupTech tools and that adoption was accelerating across prudential supervision, consumer protection and market conduct. Importantly, adoption was uneven: in 2024, 75 percent of advanced economies and 58 percent of emerging market and developing economies reported adopting SupTech tools, highlighting a widening capability gap if authorities did not modernise. In parallel, the Bank for International Settlement (BIS) reported that almost all surveyed authorities has ongoing SupTech initiatives, concentrated in regulatory reporting, data visualisation, risk assessment and supervisory automation, reflecting a global shift towards technology-enabled supervision.

Strategic Drivers and Enablers of SupTech Adoption I Risks and Considerations

Research shows that successful SupTech deployment hinges on institution-wide digital strategies, strong data governance, appropriate operating models, collaboration, controlled partnerships with peer authorities and dedicated SupTech units. However, SupTech is not without challenges. Supervisory authorities must manage, amongst other risks:

(a) data quality and interoperability challenges;
(b) cybersecurity exposures from digital systems;
(c) algorithmic transparency and model explainability to ensure supervisory decisions are justifiable; and
(d) skill gaps requiring sustained capacity building.

Botswana's Readiness: Foundations being Established

Addressing modern risks requires strong governance frameworks, robust privacy protection, and iterative development approaches that involve end-users from design to deployment. The Bank of Botswana (Bank) is strengthening enabling capabilities that are directly relevant to SupTech adoption through the following:

- **Adoption aligns with the Bank of Botswana 2026–2028 Strategic Plan:** The 2026–2028 strategy states, "building a future ready central bank: leading stability in a rapidly changing world". The Board Chair underscored that being "future-ready" requires positioning the Bank to adapt and innovate as the operating environment changes by strengthening institutional resilience, building digital and data capability, promoting agility, and keeping policy tools fit for purpose in a more complex financial system. This orientation also calls for sustained investment in people, an openness to innovation, and the disciplined use of technology to improve decision-making, risk management and policy design. In practice, this posture reinforces global sentiments and provides the governance anchor needed to sequence SupTech capabilities, starting with data standardisation and workflow automation, and scaling toward more advanced analytics.

- **The digital foundation implementation plan is pivotal for Bank wide adoption (EtsilePhetogo):** As part of the Bank's ongoing efforts to promote awareness and engagement around the digital transformation journey under Digital BoB 2024, the Bank is modernising its core processes to improve efficiency and interoperability across functions. The name "EtsilePhetogo" reinforces the shift into the digital age and a deliberate move by the Bank to retire legacy processes. This initiative provides sustained capacity building to address potential skills gap and prepare the workforce for a digital regulatory landscape. In addition, this platform could be utilised in the future to improve capacity building on the safe use of large language models, such as Copilot for NLP, supporting efficiency gains in document processing and supervisory knowledge work, consistent with SupTech use-cases where NLP is a key enabling technology.

- **The establishment of the SDMX (SDMX) data-sharing platform:** SDMX is a data platform that aims to shift the Bank from push reporting to pull reporting. Pull reporting refers to a process where users can retrieve information from a centralised repository without having to require entities to provide the data. SDMX focuses on data harmonisation, ensuring that data is easy to use, reproducible, and utilise in data-driven decision making.

  With the advent of AI and particularly large language models, it has been clear that clean data is at the forefront of accurate AI outputs. SDMX addresses data quality and interoperability matters, as it aims to make the Bank's data AI ready, and to reduce the reporting burden. Under SDMX, the Bank needs to only disseminate a singular data-set once to multiple partners, ensuring data standardisation and automated dissemination.

- **Regulatory sandbox formulation:** A sandbox is designed to enable innovators, fintechs, and financial institutions to safely test novel and emerging financial, products, services, and business models under a controlled environment.

The regulatory sandbox marks a major milestone in Botswana's journey towards a modern, competitive, and digitally inclusive financial services ecosystem. The regulatory sandbox serves to facilitate testing of innovative financial services, products and business models that are not currently covered by the Bank's existing legal and regulatory frameworks. Although the scope is focused on other market players than the Bank, the sandbox has significant potential to provide a controlled environment for testing SupTech tools with appropriate safeguards and would help address the issues of algorithmic transparency and model explainability in AI models, and possibly SupTech models.

Conclusion

SupTech has always formed part of banking supervision, whether through using e-mail or other Microsoft tools. As the Bank continues to invest in these tools, it needs to consider whether to anchor in the recent technological advances to tap into more advanced forms of SupTech, while preserving financial stability. The question is no longer whether SupTech will shape supervision, but whether the Bank modernises fast enough to prevent operational gaps from widening as financial innovation accelerates.

As financial systems digitise, traditional supervisory models may fall short of central banks' mandates. SupTech offers a transformative leap turning massive data flows into strategic insights, automating routine tasks, and enabling forward-looking, real-time and risk-based supervision, and better policy responses. To stay effective in the digital world, central banks must pivot from manual practices to technology-enabled supervision, embedding SupTech into their operational DNA and strategic planning.

The Bank's ongoing digital transformation, data-standardisation efforts, NLP enablement and sandbox development provide practical foundations. The next step is disciplined execution: clear governance, a prioritised roadmap, and robust data and risk controls to embed SupTech into core supervisory operations. The alternative is clear: without SupTech, operational gaps will widen, risks will go undetected longer, and supervisory effectiveness will erode, a risk no central bank can afford in an era of rapid financial innovation.

References

Broeders, D. and Prenio, J. (2018) *Innovative technology in financial supervision (suptech) – the experience of early users*. FSI Insights No. 9. Basel: Bank for International Settlements,

International Monetary Fund (IMF) (2025) AI Projects in Financial Supervisory Authorities: *Toolkit for a Successful Implementation* (IMF Working Paper WP/25/199, October). Washington, DC: IMF,

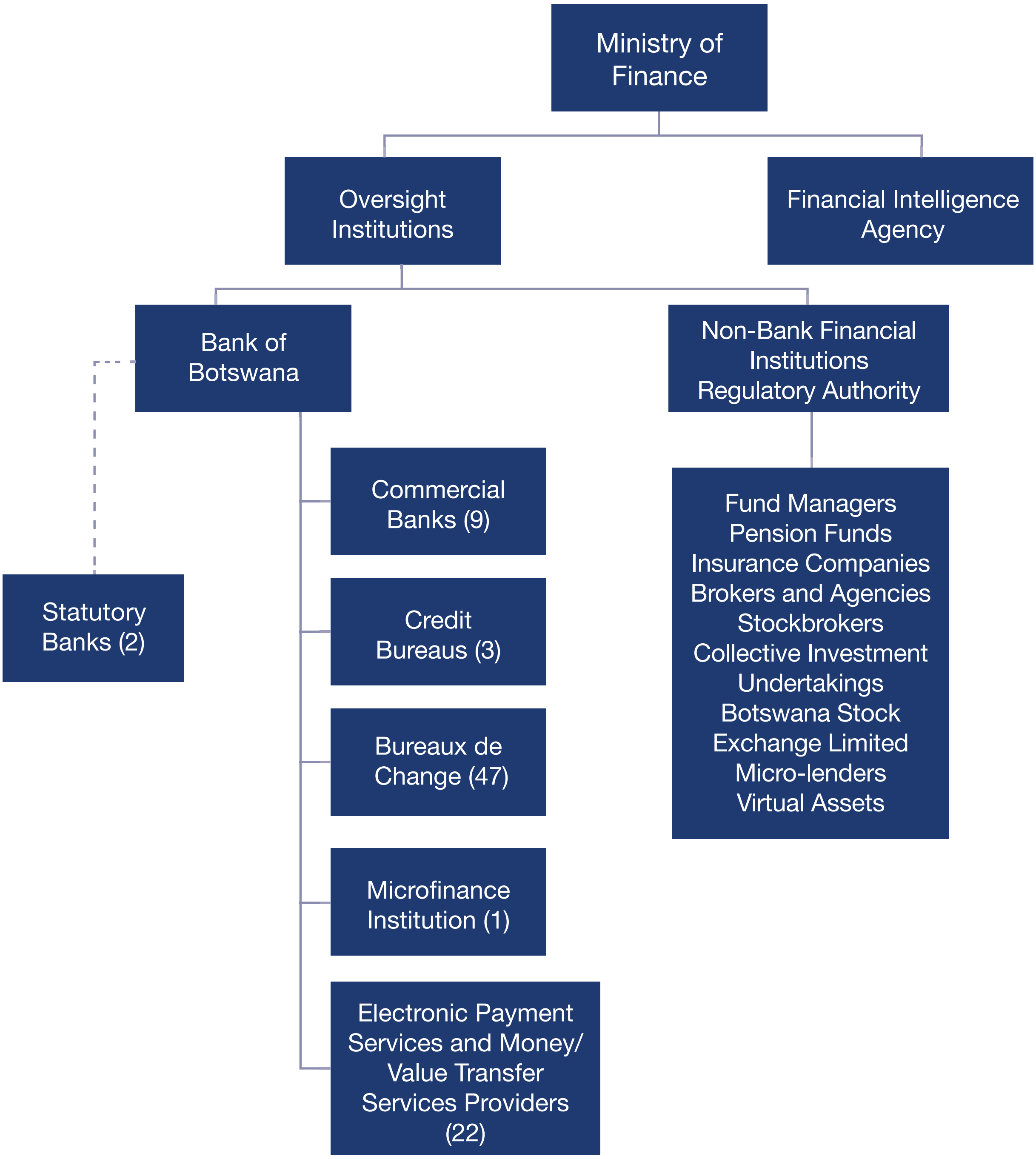
Bank for International Settlements (BIS) (2023) *Building a more diverse suptech ecosystem: findings from surveys of financial authorities and suptech vendors* (FSI Briefs No. 23). Basel: BIS,

APPENDICES

APPENDICES

APPENDIX 1

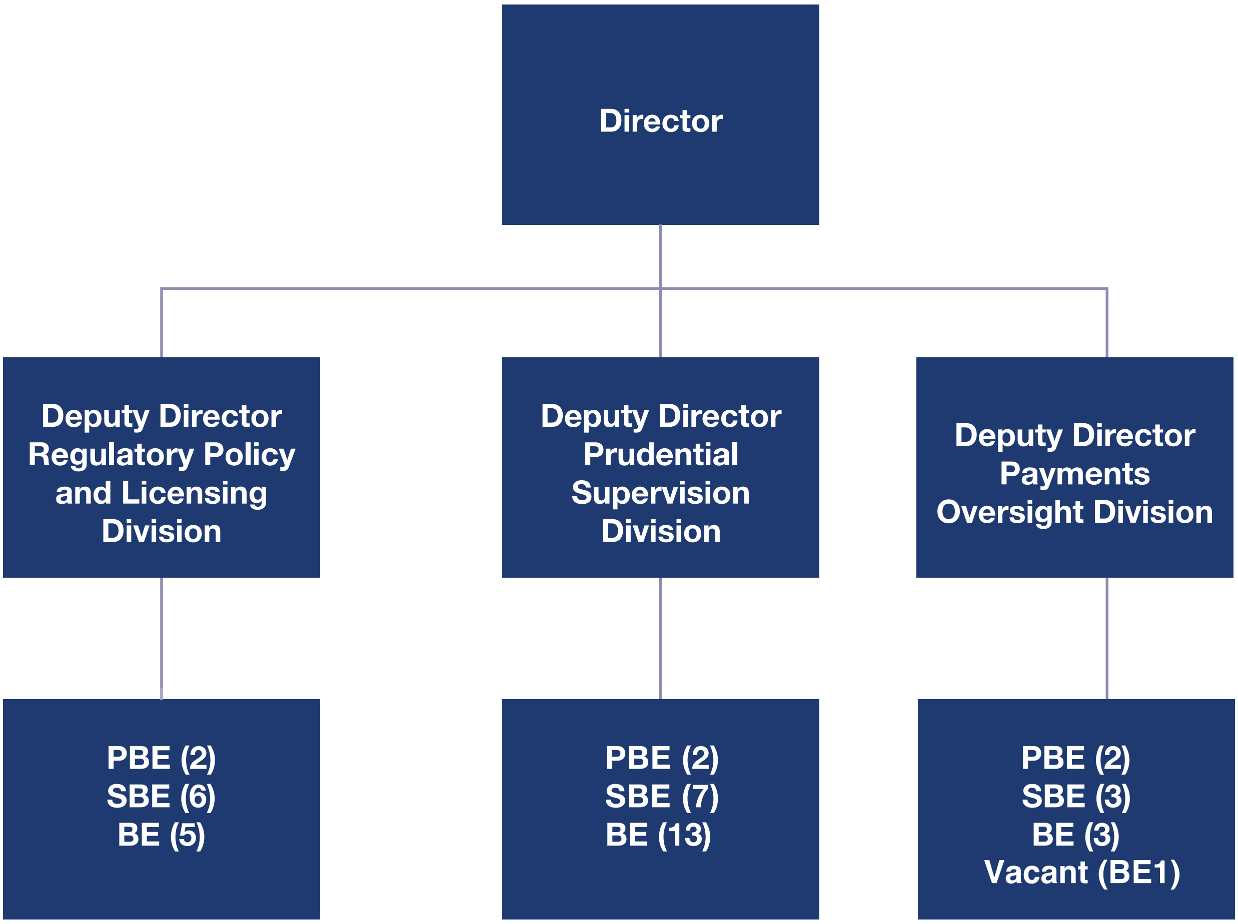
Diagram 1.1: The Regulatory Architecture of the Domestic Financial System



Source: Bank of Botswana.

APPENDIX 1 (CONTINUED)

Diagram 1.2: Prudential Authority and Payments Oversight Department as at 31 December 2025



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

Source: Bank of Botswana

APPENDIX 2

Table 1: Bank-Branch Distribution Network by District as at 31 December 2025

DISTRICT	DECEMBER 2025	DECEMBER 2024	INCREASE/ DECREASE
Gaborone	54	51	3
Francistown	13	12	1
North-West	11	11	0
Palapye	11	11	0
Kanye	10	10	0
Boteti	9	9	0
Kweneng	7	6	1
Selebi-Phikwe	6	6	0
Serowe	6	6	0
Chobe	6	6	0
Mahalapye	6	6	0
Mogoditshane-Thamaga	6	5	1
Okavango	5	5	0
Ghanzi	5	4	1
Kgatleng	4	4	0
Mabutsane	3	3	0
Hukuntsi	2	2	0
Moshupa	1	1	0
North- East	1	1	0
Tsabong	1	1	0
Tutume	1	1	0
Bobirwa	1	1	0
Charleshill	0	0	0
Goodhope	0	0	0
Letlhakeng	0	0	0
Ramotswa	0	0	0
Tlokweng	0	0	0
Tonota	0	0	0
Total	**169**	**162**	**7**

Colour codes

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

Source: Bank of Botswana

APPENDIX 3

APPROACHES TO REGULATION AND SUPERVISION OF BANKS IN BOTSWANA

1. INTRODUCTION

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

2. LEGAL FRAMEWORK

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

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

3. AUTHORITY FOR LICENSING BANKS

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

3.2 The mandate for licensing banks is exclusively conferred on the Bank by Section 4 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 8 to 11 of the Banking Act and detailed in Banking Regulations 4, 5 and 6.

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 (P25 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:

APPENDIX 3 (CONTINUED)

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 rationale 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 determine the degree of resilience of a bank to shocks to its financial position.

Liquid Assets Requirements

5.3 Section 25(1) 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 28 of the Banking Act, read with Banking Regulation 12, restricts a bank from extending, directly or indirectly, secured or unsecured credit of 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 or a duly authorised sub-committee thereof. 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 28 of the Banking Act, read with Banking Regulation 13, restricts banks from granting credit facilities to directors and their related interests more than 1 percent of a bank's core capital without the approval of the bank's entire board of directors. In addition, no bank may grant facilities, direct or indirect, to a member of its board of directors more than 25 percent of its unimpaired capital. This provision aims to avoid possibilities of insider abuse, self-dealing or over-reliance on related-party business. Any lending in violation of this requirement is deemed to be a withdrawal of capital and, therefore, deducted from the unimpaired capital in computing the capital adequacy ratio of a bank.

Non-performing Loans and Provisions

5.7 Section 24 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 Examination

6.1 The Bank conducts regular on-site examination of banks pursuant to Section 38(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(5) 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. The access enables examiners to make a fair and realistic assessment of the condition of the institution in various risk areas.

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

APPENDIX 3 (CONTINUED)

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

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

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

Bilateral and Trilateral Meetings

6.9 Prudential bilateral meetings are held once a year with each supervised bank. Prudential meetings with the institution's management are meant to discuss its financial performance, risk profile, strategies, the market in which it operates and/or any other issues of supervisory concern. These meetings provide a forum, for exchange, of views on matters affecting the supervised banks and serve to improve communication and information flow between the Bank and the supervised banks. Statutory bilateral meetings are also held once a year with audit firms engaged by supervised banks pursuant to Section 37(7) of the Banking Act. 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 37(6) 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 33 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. Further, 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 to enhance the off-site monitoring process. The OSS is a hybrid of the off-site rating system and the Financial Ratio and Peer Group Analysis monitoring tools that are used by regulators worldwide. The OSS rates and ranks banks based on an assessment of 32 financial soundness indicators or ratios. It is the adaptation of the traditional CAMELS ratings system that weighs the components relative to their current industry importance to financial soundness. The OSS scoring places banks within four broad categories of strong, adequate, partially adequate, and weak, with a rating scale of 1 to 4.5, where 1 is strong and 4.5 is weak. This rating method was developed based on the Botswana banking industry data and, therefore, factored in the country-and-sector-specific variables affecting local banking business. It is expected that this system will bring some benefits in terms of tracking financial soundness and, accordingly, trigger appropriate supervisory reactions to systemic and idiosyncratic conditions that may warrant intervention.

7. ACCOUNTING, AUDITING AND DISCLOSURE STANDARDS

7.1 Section 35 of the Banking Act requires banks to annually appoint independent external auditors acceptable to the Bank and as approved by the Botswana Accountancy Oversight Authority. Statutory audits are conducted annually, usually at financial year-end, except when a bank intends to capitalise half-year interim profits, in which case it must call for an audit of the accounts. Change of external auditors or the financial year-end requires prior approval of the Bank. The external audit firm must rotate, every five years, the lead auditor or coordinating partner or the partner responsible for reviewing the audit and the auditor shall not be an auditor of a bank or deposit taking institution for a continuous period of more than 10 years.

APPENDIX 4

SUPERVISED FINANCIAL INSTITUTIONS AS AT 31 DECEMBER 2025

(a) COMMERCIAL AND STATUTORY BANKS

Institution	Total Assets (P' million)	Postal Address	Business Locations	Auditors
Commercial Banks				
Absa Bank Botswana Limited	27 109	P O Box 478, Gaborone	38	KPMG
Access Bank Botswana Limited	10 812	Private Bag 00303, Gaborone	20	PricewaterhouseCoopers
Bank Gaborone Limited	10 074	Private Bag 00325, Gaborone	14	Deloitte
Bank of Baroda (Botswana) Limited	4 606	P O Box 216 ADD, Gaborone	4	Grant Thornton
BBS Bank Limited	5 606	P O Box 40029, Gaborone	10	PricewaterhouseCoopers
First Capital Bank Limited	9 053	P O Box 5548, Gaborone	10	Ernst & Young
First National Bank of Botswana Limited	34 803	P O Box 1552, Gaborone	31	Ernst & Young
Stanbic Bank Botswana Limited	27 065	Private Bag 00168, Gaborone	21	Deloitte
Standard Chartered Bank Botswana Limited	17 355	P O Box 496, Gaborone	19	Ernst & Young
Statutory Banks				
Botswana Savings Bank	5 007	P O Box 1150, Gaborone	11	Grant Thornton
National Development Bank	1 552	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 2025

Name	Postal Address	Business Location
4Corners Bureau de Change	P O Box 848, Ghanzi	1
Andy and Esi Bureau de Change	P O Box 504125, Gaborone	1
Ban Mo Bureau de Change	P O Box 99, Sherwood	1
Beni Fame Bureau de Change	P O Box 2143 AAD, Gaborone	2
BSmart Bureau de Change	P O Box 422, Kasane	3
City Exchange Bureau de Change	P O Box 50282, Gaborone	1
Cruise Africa Bureau de Change	P O Box 10238, Lobatse	2
CSS Bureau de Change	P O Box 45168, Gaborone	3
Exim Bureau de Change	P O Box 1020, Gaborone	1
Fanz Bureau de Change	P O Box 617, Lobatse	1
Fundex Bureau de Change	P O Box 401547, Gaborone	3
Galaxy Bureau de Change	P O Box 501055, Gaborone	2
Garona Bureau de Change	P O Box 408, Gaborone	3
Genesis Bureau de Change	P O Box 455 AAH, Gaborone	1
Gorogang Bureau de Change	P O Box 46785, Gaborone	1
Guile and khoison Bureau de Change	P O Box 82052, Gaborone	1
Kabona Bureau de Change	P O Box 465 ADD, Tlokweng	1
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 1444, Lobatse	2
Louise Bureau de Change	P O Box 301198, Tlokweng	1
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, Selibe-Phikwe	1

APPENDIX 4 (CONTINUED)

(b) BUREAUX DE CHANGE AS AT 31 DECEMBER 2025 (CONTINUED)

Name	Postal Address	Business Location
Mochudi Bureau de Change	P O Box 202147, Gaborone	2
Monyglob Bureau de Change	P O Box AD 749 ADD, Gaborone	21
Mukuru Bureau de Change	P O Box AD 1753 ADD, Gaborone	5
Naik Bureau de Change	P O Box AD 749, Gaborone	5
Open Door Bureau de Change	P O Box 839, Maun	9
Ozair Bureau de Change	P O Box 4862, Gaborone	3
Pefac Bureau de Change	P O Box AE 42 AEH, Gaborone	1
Perfect Bureau de Change	P O Box 1095, Lobatse	1
Prime Ex Bureau de Change	P O Box 686, Moshupa	2
Proxy Bureau de Change	P O Box 404108, Gaborone	2
Renaissance Bureau de Change	P O Box 45524, Gaborone	1
River Ride Bureau de Change	P O Box 301106, Francistown	1
Safari Bureau de Change	P O Box 21410, Maun	1
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	1
Tshilong Bureau de Change	P O Box 40418, Gaborone	1
Unity Bureau de Change	P O Box 1586, Francistown	1
Wealth Bureau de Change	P O Box 201757, Gaborone	1
Total	47	106

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

APPENDIX 4 (CONTINUED)

(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.

(d) ELECTRONIC PAYMENT SERVICE PROVIDERS

TYPES OF ELECTRONIC PAYMENT SERVICES	ELECTRONIC PAYMENT SERVICE PROVIDERS	POSTAL ADDRESS
Electronic Money Issuance Payment Services	Orange Money Botswana (Pty) Limited	Private Bag B064, Gaborone
	Mascom Wireless Botswana (Pty) Limited	Private Bag B0298, Gaborone
	Botswana Telecommunications Corporation Limited	P O Box 700, Gaborone
	Botswana Postal Services Limited	P O Box 100, Gaborone
	Mukuru Bureau de Change	P O Box AD148 AAD, Gaborone
	Monyglob (Pty) Limited	Private Bag 00278, Gaborone
	Motshelo Mobile (Pty) Limited	P O Box 746 ACR, Mogoditshane
	Mobipay (Pty) Limited	P O Box 959 AAD, Gaborone
	OKP Botswana (Pty) Limited	P O Box 41034, Gaborone
	Fastech Epay (Pty) Limited	P O Box 1190 AAD, Gaborone
	Tylersoft Technologies (Pty) Limited	Private Bag BO70, Gaborone
	Afritec Pay (Pty) Limited	Private Bag 115, Gaborone
	Code Fintech (Pty) Limited	P O Box 81384, Gaborone
	Letshego Financial Services (Pty) Limited	P O Box 381, Gaborone
	Paykarata (Pty) Limited	P O Box 501784, Gaborone

APPENDIX 4 (CONTINUED)

TYPES OF ELECTRONIC PAYMENT SERVICES	ELECTRONIC PAYMENT SERVICE PROVIDERS	POSTAL ADDRESS
Account Based Payment Services	Smartswitch Botswana (Pty) Limited	P O Box AD16 ADC, Gaborone
	PAA Capital (Pty) Limited	P O Box AD 30 AEG, Gaborone
	Botswana Life Insurance Limited	Private Bag 00296, Gaborone
	Cellulant Botswana (Pty) Limited	P O Box AD120 ABE Kgale View, Gaborone
	PAYM8 (Pty) Limited	P O Box 1172, Gaborone
	Realpay Botswana (Pty) Limited	Private Bag BO 155, Gaborone
	Virtual Card Services Botswana (Pty) Limited	Private Bag 46024, Gaborone
Non-Account Based (Money Remittance) Payment Services	FMC Investments (Pty) Limited t/a CSS Money Transfer	P O Box 45168 Riverwal, Gaborone
	VK Consultancy (Pty) Limited	Private Bag 0080, Gaborone

APPENDIX 5

DEFINITION OF BANKING SUPERVISION TERMINOLOGY AS USED IN THE REPORT

(a) DEFINITION OF BANKING SUPERVISION TERMS

(aa) **Asset Concentration:** Measures aggregate exposure to one borrower, an affiliated group of borrowers, or borrowers with a common controlling interest, common management, cross-guarantees, or financial interdependency that cannot be substituted in the short term. This exposure is usually expressed as a percentage of the bank's unimpaired capital and its various thresholds are subjected to prudential regulatory requirements. According to Section 28 of the Banking Act, an exposure more than 10 percent of a bank's core capital is deemed an asset concentration requiring prior approval of the board of directors of the lending financial institution. Exposures exceeding 30 percent of the bank's unimpaired capital require the Bank's approval.

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

(ac) **Loan Classifications:**

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

(ii) ***"Special Mention" Assets:*** A credit should be in the "special mention" or watch category if it is currently protected, but potentially weak. That is, assets with potential weaknesses that may, if not checked 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.

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

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

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

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

(ae) **Total Risk-weighted Assets:** An aggregate of the total value of assets after adjusting for the risk inherent in each asset for both on-balance sheet and off-balance sheet items. A list of assets and the corresponding risk conversion factors used in risk-weighting is presented at Appendix 6 (c) 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 8 (the 8 is an inverse of 12.5 percent minimum capital adequacy ratio), the result of which is added to the risk-weighted assets for credit risk to come up with the total risk-weighted assets for a bank.

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

(b) PRUDENTIAL RATIOS

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

APPENDIX 5 (CONTINUED)

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

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

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

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

(bf) **Net Interest Margin (Percent):** this is net interest income as a percentage of average total earning assets. The ratio identifies the core earnings capability of a bank.

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

(bh) **Net Operating (or Intermediation) Margin (Percent):** The intermediation margin can be defined as the differential between the cost of funds and the yield on earning assets plus related fee income. The differential quantifies the cost incurred by the banking system for intermediating between the providers and the users of funds.

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

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

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

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

APPENDIX 5 (CONTINUED)

(c) CAPITAL ELEMENTS

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

Source: Bank of Botswana.

APPENDIX 5 (CONTINUED)

Table 1: Regulatory Adjustments Applied in the Calculation of Capital

1. Regulatory adjustments applied in the calculation of CET 1 Capital	
A. Full deductions	
Line	Item
23	Goodwill and other intangible assets
24	Advances of a capital nature granted to connected persons
25	DTA that rely on future profitability to be realised
26	Investments in own shares, whether directly or indirectly
27	Unrealised revaluation losses on investments in securities
28	Defined benefit pension fund assets
29	Reciprocal holdings in the capital of banking, financial and insurance entities
30	Cash flow hedge reserve
31	Gain on sale related to securitisation transactions
32	Regulatory adjustments applied to CET1 capital due to insufficient additional Tier 1 and Tier 2 capital
33	**Full Deductions applied to the calculation of CET1 Capital Lines (23+24+25+26+27+28+29+30+31+32)**
B. Threshold deductions	*(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 CET 1 Capital Lines (34+35+36+37)**
39	**Total regulatory adjustments applied to the calculation of CET 1 Capital Lines (33+38)**
2. Regulatory adjustments applied in the calculation of Additional Tier 1 Capital	
A. Full deductions	
40	Direct investments in own additional Tier 1 capital, net of any short positions, if the short positions involve no counterparty risk
41	Indirect investments in own additional Tier 1 capital (e.g., through holdings of index securities in which the bank itself is a constituent), net of any short positions
42	Any own additional Tier 1 capital which the bank could be contractually obliged to purchase

43	Reciprocal cross holdings and the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation
44	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities)
45	**Full deductions applied to the calculation of Additional Tier 1 Capital Lines (40+41+42+43+44)**
B. 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 threshold deductions applied to the calculation of additional Tier 1 capital
48	Total regulatory adjustments applied to the calculation of additional Tier1 capital lines (45+47).
3. Regulatory adjustments applied in the calculation of Tier 2 Capital	
A. Full deductions	
49	Direct investments in own Tier 2 capital, net of any short positions, if the short positions involve no counterparty risk
50	Indirect investments in own Tier 2 capital (e.g., through holdings of index securities in which the bank itself is a constituent), net of any short positions
51	Any own Tier 2 capital which the group could be contractually obliged to purchase
52	Reciprocal cross holdings and the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation
53	Significant investments in the common shares of unconsolidated financial institutions, where a bank or its subsidiary owns more than 10 percent common shares of the issuing entity (banks, insurance and other financial entities).
54	**Full deductions applied to the calculation of Tier 2 Capital Lines (49+50+51+52+53)**
B. Threshold deductions:	*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)*
55	Aggregate non-significant investments by the bank or its subsidiary in the equity of other banks and financial institutions, where the aggregate investment is equal to or greater than 10 percent of the capital of the institution in which the investment is made – instead of full deduction, only deduct the excess above the 10 percent threshold, the remaining amount below the 10 percent threshold shall be treated as other assets.
56	**Total threshold deductions applied to the calculation of Tier 2 Capital**
57	**Total regulatory adjustments applied to the calculation of Tier 2 Capital Lines (54+56)**

Note (1) The amount of the three items (34, 35, 36) not deducted (threshold amounts) in the calculation of CET1 is treated as other assets and risk-weighted at 250 percent.
(2) Line 37: The amount above the 10 percent threshold shall be deducted from CET1, and the amount at or below threshold shall be risk-weighted as appropriate in line with the Monthly Schedule M- SRWA 12a (CRM.1): Credit Risk Mitigation (Simple Approach) or Monthly Schedule M-SRWA 12b (CRM.2):Credit-risk Mitigation (Comprehensive Approach).

Source: Bank of Botswana.

APPENDIX 6

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

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

	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.

APPENDIX 6 (CONTINUED)

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

Source: Bank of Botswana.

APPENDIX 6 (CONTINUED

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

Maturity/Commitment	Credit Conversion Factor Percentage
Commitments:	
• Original maturity up to 1 year • 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: 2020–2025

Table 1: Aggregate Statement of Financial Position of Licensed Commercial Banks: 2020–2025 as at 31 December (P million)

Total Assets in Local Currency	2021	2022	2023	2024	2025
1. Cash and balances with the central bank	5 336	3 604	8 622	4 738	4 677
1.1. Currency	1 932	1 977	2 246	2 240	2 311
a) Foreign currency	197	187	259	222	255
b) Local currency	1 735	1 790	1 987	2 018	2 056
1.2. Balances with central bank	3 404	1 627	6 375	2 498	2 366
1.3. Other	-	-	-	-	-
2. Investment and trading securities	13 653	15 931	20 188	23 207	24 881
3. Placements with other banks and credit institutions	19 337	23 222	20 933	27 245	25 494
4. Gross loans and advances to other customers	68 920	73 202	81 795	87 127	89 990
4.1 Impairments – specific	1 654	1 437	1 509	1 479	1 645
4.2 Interest in suspense	216	214	277	290	310
4.3 Impairments portfolio	943	832	1 074	1 063	1 250
5. Loans and advances to other customers (net of specific provisions)	66 107	70 718	78 935	84 296	86 785
6. Fixed assets net of depreciation	1 323	1 320	1 437	1 490	1 493
7. Other assets (net)	2 835	2 155	3 478	2 942	3 154
Total Assets	**108 591**	**116 949**	**133 593**	**143 919**	**146 483**
Total Liabilities in Local Currency					
1. Amounts owed to government institutions	-	-	-	4 437	3 391
a) Central bank accounts	-	-	-	4 437	3 391
b) Direct government credits (CB or Ministry of Finance)	-	-	-	-	-
2. Due to other banks and credit institutions	3 999	5 222	6 150	7 030	6 716
3. Debt securities and other borrowing	6 162	5 481	5 886	6 625	4 836
4. Due to other customers/depositors	84 364	90 927	104 127	107 277	110 785
5. Shareholder funds	10 756	12 587	14 074	15 034	17 307
6. Other liabilities	3 310	2 733	3 355	3 515	3 448
a) Taxes payable	35	66	120	133	43
b) Dividends payable	254	-	-	501	-
c) Accrued expenses	1 008	674	1 220	759	748
d) Other	2 013	1 993	2 015	2 123	2 656
Total Liabilities	**108 591**	**116 949**	**133 593**	**143 919**	**146 483**

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)

	2021	2022	2023	2024	2025
1. Total interest income from loans and advances	6 207	7 665	9 915	10 855	11 834
2. Interest expense	1 880	2 669	3 552	3 378	5 135
3. Net interest income [1 – 2]	4 327	4 996	6 364	7 477	6 699
4. Total non-interest income	2 946	3 387	3 479	3 910	5 226
5. Gross operating income/(loss) [3+4]	7 273	8 383	9 843	11 387	11 925
6. Total impairments	495	108	281	211	856
a) Impairment of loans and advances – specific	632	138	218	341	567
b) Impairment of loans and advances – portfolio	(142)	(24)	50	(171)	196
c) Impairment on other financial assets	5	(7)	13	41	94
7. Operating income/(loss) net of bad and doubtful debts	6 778	8 275	9 562	11 177	11 069
8.Total non-interest expense	4 388	4 747	5 542	5 871	6 245
a) Salaries and employee benefits	2 025	2 148	2 651	2 682	2 906
b) Auditing and consulting expenses	20	45	112	21	121
c) Rents paid	110	147	135	136	225
d) Depreciation and amortisation	299	302	331	366	395
e) Other	1 935	2 104	2 314	2 666	2 599
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]	2 390	3 528	4 019	5 306	4 823
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]	2 390	3 528	4 019	5 306	4 823
13. Income tax	573	891	899	1 196	1 131
14. Net after-tax income/(loss) [12-13]	1 817	2 638	3 121	4 110	3 693

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	2021	2022	2023	2024	2025
1. Cash and balances with the central bank	56	28	36	72	54
a) Currency	45	18	31	70	51
aa) Foreign currency	-	-	-	-	-
ab) Local currency	45	18	31	70	51
b) Balances with central bank	12	10	5	1	3
c) Other	-	-	-	-	-
2. Investment and trading securities	-	-	1	1	1
3. Placements with other banks and credit institutions	771	1 218	617	568	888
4. Gross loans and advances to customers	6 104	5 810	3 487	5 774	5 405
5. Impairments	153	152	302	203	244
6. Net loans and advances to customers	5 951	5 658	3 186	5 570	5 161
8. Fixed assets net of depreciation	256	218	199	193	182
9. Other assets (net)	119	168	605	310	272
Total Assets	**7 153**	**7 290**	**4 644**	**6 715**	**6 559**
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	940	948	920	797	766
3. Due to customers/depositors	5 062	5 296	2 401	4 380	4 110
4. Shareholders funds	720	704	1 015	1 349	1 518
5. Other liabilities	430	342	307	189	166
a) Taxes payable	1	1	-	-	-
b) Dividends payable	-	-	-	-	-
c) Accrued expenses	-	-	-	-	-
d) Other	429	341	307	189	166
Total Liabilities	**7 153**	**7 290**	**4 644**	**6 715**	**6 559**

** CB denotes central bank.

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

APPENDIX 7 (CONTINUED

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

	2021	2022	2023	2024	2025
1. Total interest income from loans and advances	545	558	423	523	777
2. Interest expense	291	326	205	231	443
3. Net interest income [1-2]	254	232	219	292	334
4. Total non-interest income	48	57	86	182	210
5. Gross operating income/(loss) [3+4]	**301**	**289**	**305**	**474**	**543**
6. Total Impairments	(6)	(4)	27	35	43
a) Impairment of loans and advances – specific	(6)	(4)	27	35	43
b) Impairment of loans and advances – portfolio	-	-	-	-	-
c) Releases and recoveries of bad debts previously written off	-	-	-	-	-
d) Share of associate company profits	-	-	-	-	-
e) IFRS adjustments	-	-	-	-	-
f) Reversal of interest in suspense	-	-	-	-	-
7. Operating income/(loss) net of specific loss provisions	**307**	**293**	**302**	**439**	**500**
8. Total non-interest expense	313	301	335	368	394
a) Salaries and employee benefits	145	152	165	170	173
b) Administrative expenses	-	-	-	-	-
c) Auditing and consulting expenses	-	3	2	2	3
d) Rents paid	3	3	6	2	1
e) Depreciation and amortisation	32	31	26	28	33
f) Other	134	112	137	165	182
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]	**(6)**	**(8)**	**(21)**	**72**	**106**
11. Extraordinary gains/(losses)	-	-	-	-	-
a) Gains/losses on revaluation of assets (net)	-	-	-	-	-
b) Translation gains/losses (net)	-	-	-	-	-
c) Other gains/losses	-	-	-	-	-
12. Net income/(loss) before Tax [10+11]	**(6)**	**(8)**	**(21)**	**72**	**106**
13. Income tax	**5**	**4**	**-**	**16**	**2**
14. Net income/(loss) after-tax [12-13]	**(11)**	**(12)**	**(21)**	**55**	**104**

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

APPENDIX 7 (CONTINUED

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

		2021	2022	2023	2024	2025
COMMON EQUITY TIER 1 (CET1) CAPITAL						
1	**Common shares**	1 140	1 374	1 861	1 861	1 861
2	**Share premium resulting from the issue of common shares**	275	41	41	41	41
3	**Retained earnings:**	**7 473**	**8 125**	**8 978**	**9 669**	**11 583**
	Retained earnings brought forward from the previous financial year	7 887	8 693	9 850	10 393	12 474
	Add: interim profits (audited by external auditor)	-	(24)	80	176	98
	Less: IFRS 16 take on impact	-	-	10	-	-
	Less: dividend declared	160	544	14	68	12
	Less: dividend paid in the current financial year	254	-	928	832	977
4	**Accumulated other comprehensive income and other disclosed reserves**	**335**	**487**	**343**	**359**	**337**
	a) Statutory credit risk reserve	174	327	189	189	189
	b) Capital buffer	-	-	-	-	-
	c) Statutory reserves	8	8	8	8	8
	d Other (specify)	153	152	146	162	140
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**	141	119	151	232	240
	a. IFRS 9 provisions transitional adjustments	20	20	-	-	-
	b. Transitional adjustment amount added back to CET1	-	-	-	-	-
7	**CET1 Capital** (Lines (1+2+3+4+5-6))	**9 008**	**9 834**	**11 019**	**11 645**	**13 529**
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))	**9 408**	**10 234**	**11 419**	**12 045**	**13 929**
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)	2 324	2 585	2 431	2 320	1 638
15	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-

APPENDIX 7 (CONTINUED

16	Unpublished current year profits	1 086	2 034	2 331	2 808	2 948
17	Tier 2 capital instruments (subject to gradual phase-out treatment)	-	20	72	102	102
18	Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-	-	-	-	-
19	General provisions/general loan-loss reserves eligible for inclusion as Tier 2 capital, limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardised approach	825	855	883	1 028	1 043
20	Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21	**Total Tier 2 Capital** (Lines (14+15+16+17+18+19-20))	**4 235**	**5 494**	**5 718**	**6 259**	**5 731**
22	**Total Unimpaired Capital** (Lines (13+21))	**13 643**	**15 729**	**17 136**	**18 304**	**19 660**

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

APPENDIX 7 (CONTINUED

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

		2021	2022	2023	2024	2025
1	Common shares	1 140	1 374	1 861	1 861	1 861
2	Share premium	275	41	41	41	41
3	Retained earnings	7 473	8 125	8 978	9 669	11 583
4	Total tier 1 capital	9 408	10 234	11 419	12 045	13 929
5	Subordinated term debt	2 324	2 585	2 431	2 320	1 638
6	Current year's unpublished profits	1 086	2 034	2 331	2 808	2 948
7	Total tier 2 capital	4 235	5 494	5 718	6 259	5 731
8	Total unimpaired capital (sum of Lines 4 and 7)	13 643	15 729	17 136	18 304	19 660

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

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

		2021	2022	2023	2024	2025
COMMON EQUITY TIER 1 CAPITAL						
1	Common shares	507	507	784	827	884
2	Share premium resulting from the issue of common shares	-	-	-	-	-
3	**Retained earnings:**	**45**	**45**	**94**	**171**	**245**
	Retained earnings brought forward from the previous financial year	45	45	94	171	245
	Add: interim profits (audited by external auditor)	-	-	-	-	-
	Less: unpublished current year's losses	-	-	-	-	-
	Less: dividend declared	-	-	-	-	-
	Less: transfers during the year	-	-	-	-	-
	Less: dividend paid in the current financial year	-	-	-	-	-
4	**Accumulated other comprehensive income and other disclosed reserves**	173	182	79	82	96
	a) Statutory credit risk reserve	-	-	-	-	-
	b) Capital buffer	-	-	-	-	-
	c) Statutory reserves	173	182	79	82	96
	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	17	62	33	64	38
7	**CET1 Capital** (Lines (1+2+3+4+5-6))	**721**	**672**	**925**	**1 017**	**1 188**
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))	**721**	**672**	**925**	**1 017**	**1 188**
TIER 2 CAPITAL						
14	Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	77	79	216	260	253
15	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-	-	-	-	-
16	Unpublished current year's profits	(5)	(30)	(32)	56	97
17	Tier 2 capital instruments (subject to gradual phase-out treatment)	-	-	-	-	-

APPENDIX 7 (CONTINUED

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	23	24	28	27	40
20	Regulatory adjustments applied in the calculation of Tier 2 capital	-	-	-	-	-
21	**Total Tier 2 Capital** (Lines (14+15+16+17+18+19-20))	**95**	**73**	**213**	**342**	**390**
22	**Total Unimpaired Capital** (Lines (13+21))	**816**	**745**	**1 138**	**1 359**	**1 577**

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

APPENDIX 7 (CONTINUED

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

		2021	2022	2023	2024	2025
1	Common shares	507	507	784	827	884
2	Retained earnings	45	45	94	171	245
3	Total tier 1 capital	721	672	925	1 017	1 188
4	Current year's unpublished profits	(5)	(30)	(32)	56	97
5	Total tier 2 capital	95	73	213	342	390
6	Total unimpaired capital (sum of lines 3 and 5 less impairments)	816	745	1 138	1 359	1 577

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

APPENDIX 8

CHARTS OF PRUDENTIAL AND FINANCIAL SOUNDNESS INDICATORS

Chart 8.1: Average Cost of Deposits

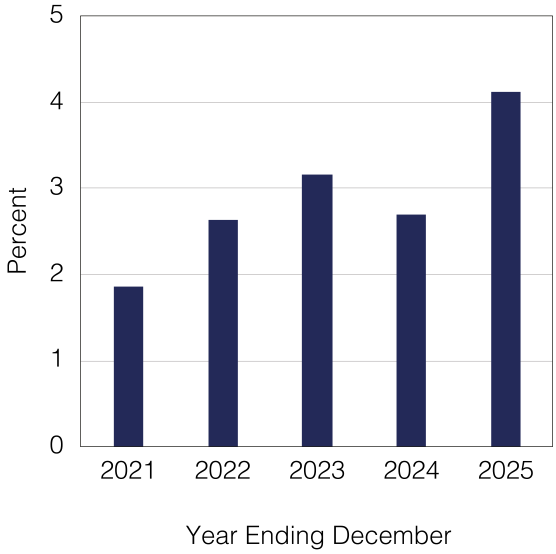


Chart 8.2: Return on Loans and Advances

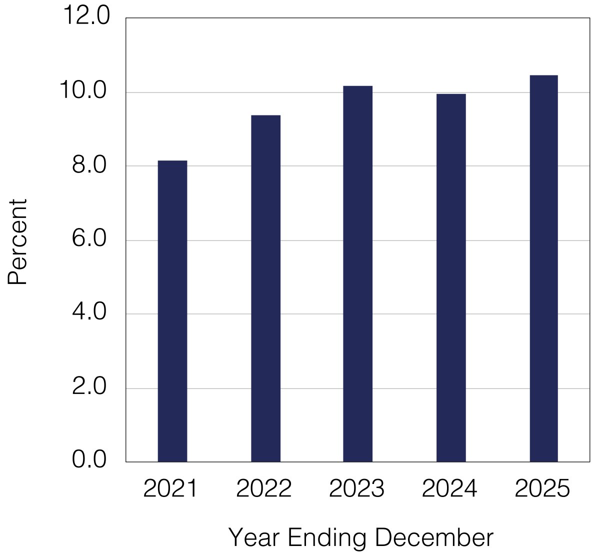


Chart 8.3: Residential Real Estate Loans to Gross Loans and Advances

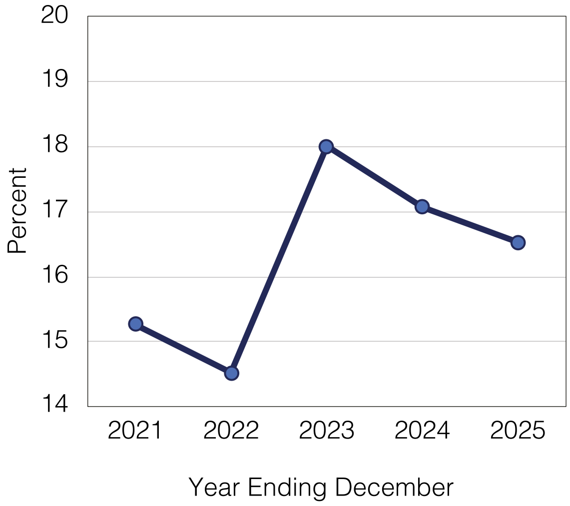
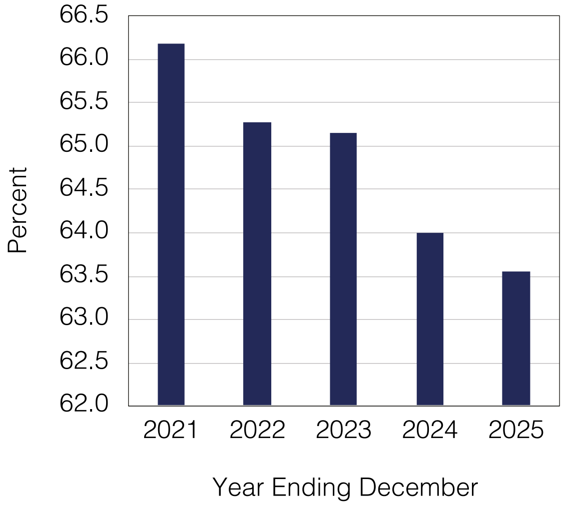


Chart 8.4: Household Loans to Gross Loans and Advances



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

Chart 8.5: Non-Performing Loans Growth rate

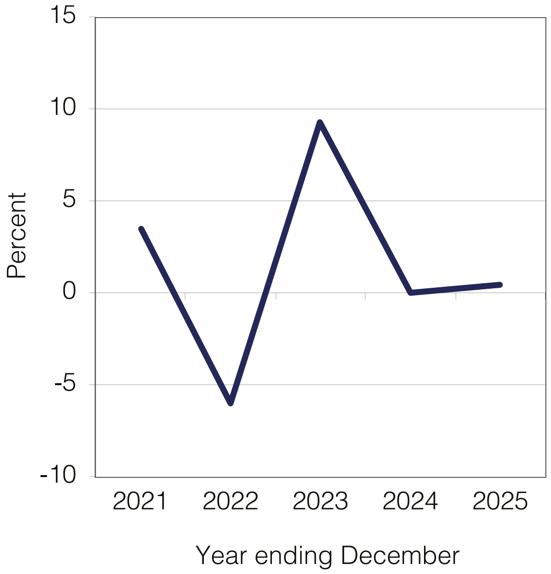


Chart 8.6: Share of Value of Total Deposits by Type (including FCAs)

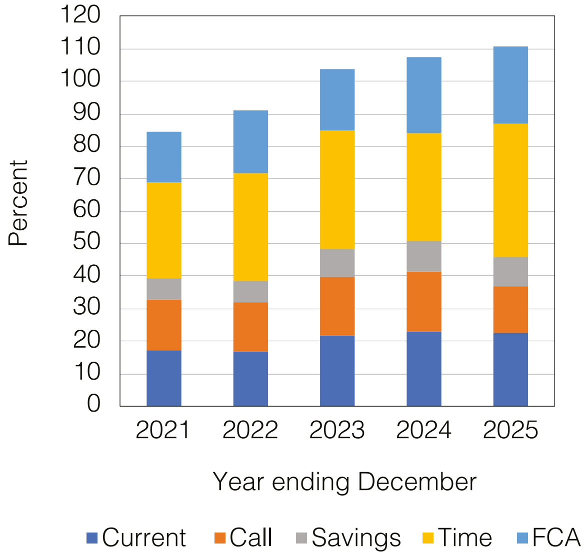


Chart 8.7: Foreign Currency Accounts

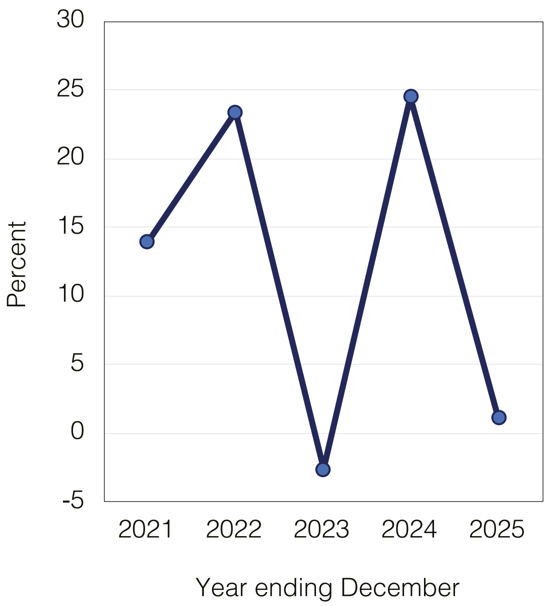
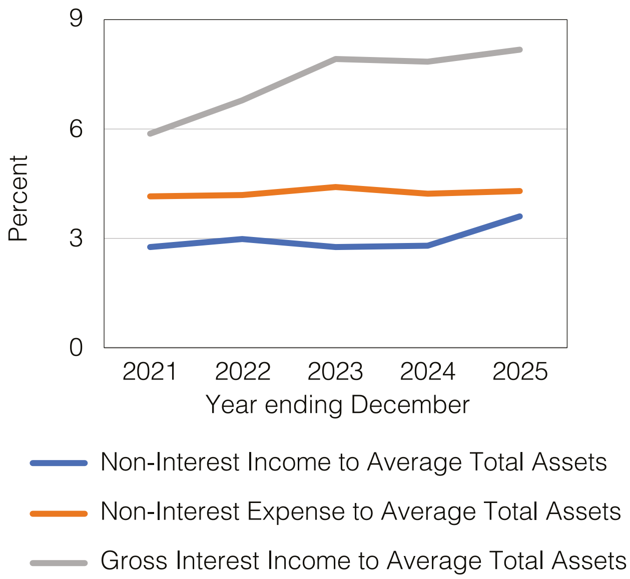


Chart 8.8: Efficiency ratios



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

NOTES

NOTES

NOTES

NOTES

NOTES

Gaboronе Headquarters
17938, Khama Crescent, Gaborone, Botswana

(267) 360 6000

Private Bag 154, Gaborone, Botswana

Francistown Branch
9597, Thapama Circle, Francistown, Botswana

(267) 241 0450 / 240 0400

Private Bag F212, Francistown, Botswana

www.bankofbotswana.bw