First Capital BANK

ANNUAL **REPORT** 2021

Belief comes first.

CONTENTS

"Since launching in Botswana in 2008, First Capital Bank has progressed from being a newcomer in Botswana's highly competitive banking sector to a multi-award-winning financial institution that has made its presence felt in vital local market segments."

Hitesh Anadkat, *Chairman*

1 INTRODUCTION

DIRECTORS' RESPONSIBILITIES AND APPROVAL

This is the annual report and financial statements of First Capital Bank Limited (First Capital Bank or the Bank) to its stakeholders for the financial year under review from 1 January 2021 to 31 December 2021.

Directors' responsibilities

The Directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements and to ensure that they fairly present the state of affairs of the Bank at the end of the financial year, the financial performance and cash flows for the reporting period, and other information included in this report.

Prudential regulation

Licensed by the Bank of Botswana according to the provisions in the Banking Act (Cap 46:04, section 4), First Capital Bank is governed by the banking laws of Botswana, which are in place for the purposes of supporting financial stability. The governing laws of the Bank of Botswana ensure that only sound and reputable banks can operate in the country.

From time to time the Bank of Botswana issues guidelines to the banks operating in the country to assist them in complying with their legal responsibilities.

Corporate governance

Adequate and efficient communication and monitoring systems are in place to ensure that the directors receive all relevant, accurate information to guide them in making strategic decisions, providing effective leadership, control and strategic direction over the company's operations, and in ensuring that the company fully complies with relevant legal, ethical and regulatory requirements.

The six capitals

First Capital Bank aims to create value in all six capitals defined by the IIRC. These include financial capital, manufactured capital, intellectual capital, human capital, natural capital and social capital. This means that, in addition to creating financial value for its shareholders, the Bank creates value for a range of different beneficiaries in five other categories.

Forward-looking statements

All forward-looking statements are based on beliefs and assumptions relative to information currently available to First Capital Bank Limited's management. There can be no assurance that such statements will be accurate and actual results and future events could differ materially from those anticipated in such statements.

For purposes of this report, the words 'believe', 'anticipate', 'estimate', 'expect', 'intend', and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to certain risks, uncertainties, and assumptions. These risks include, but are not limited to, general market conditions, our ability to manage growth, performance, and changes in the regulatory environment, among others.

First Capital Bank Limited undertakes no obligation to update forward-looking statements to reflect subsequently occurring events or circumstances or to reflect unanticipated events or developments.

Assurance

An independent audit of the Bank's annual financial statements was performed by Deloitte Botswana. Information contained in the report is derived from the Bank's own internal resources and from information available in the public domain.

Board approval

The Board and its subcommittees acknowledge their responsibility for overseeing the integrity and completeness of this report. The Board confirms that it has collectively reviewed the contents of the report and applied its collective mind to the preparation and presentation of this report. Furthermore, it believes that it has appropriately considered the accuracy and completeness of the material matters as well as the reliability of all data and information presented herein. The Board approved the annual report on 16 June 2022.

Hitesh Anadkat
Chairman

Stephen Pezarro
Director

The Annual Report serves to provide a balanced and holistic summary of the Bank's performance.

This Annual Report is available for download from our website at

www.firstcapitalbank.co.bw

FEEDBACK ON THIS REPORT

We welcome your feedback on this report.
Please email your comments to:

customerhelpdesk@firstcapitalbank.co.bw

WHO WE ARE

Overview

First Capital Bank Limited began commercial operations in Botswana in May 2008. Headquartered in Gaborone, it has branches in Gaborone (Old Lobatse road and New CBD), Francistown and Mogoditshane, and Maun branch, which opened on 6 April 2022. The Bank provides a full range of services in all major currencies and aims to achieve the highest standards of customer service.

First Capital Bank is affiliated to FMBcapital Holdings plc (FMBCH Group). The FMBCH Group also has banking operations in Malawi, Zambia, Mozambique, and Zimbabwe.

At a glance

BRANCHES	LOAN CENTRES	ATMs	PERMANENT STAFF	CUSTOMERS
4	**6**	**5**	**205**	**17 800**
(2021: 4)	(2021: 6)	(2021: 5)	(2021: 186)	(2021: 19 046)

First Capital Bank offers a comprehensive range of corporate, commercial and personal banking services and has a traditionally strong focus on servicing small to large-scale independent businesses.

In 2018, the Bank expanded into the personal loans market by opening loan centres in Gaborone and Francistown.

First Capital Bank is a member of the Electronic Clearing House (ECH), Real Time Gross Settlement (RTGS) system and Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Company structure

FMBcapital HOLDINGS plc

38.6%

OTHER INVESTORS

Everglades Holdings (Pty) Ltd **32.96%**

Premier Capital (Mauritius) Limited **16.32%**

Prime Bank Limited (Kenya) **6.62%**

61.4%

First Capital BANK

100%

First Capital Bank Botswana Limited

Jetwig Enterprises Proprietary Limited
t/a First Capital Bank Insurance Agency

Based in Botswana

Recognition

First Capital Bank has been recognised for its achievements with the following awards.

BEST BANK IN BOTSWANA 2021
GLOBAL FINANCE

BEST FOREIGN EXCHANGE BANK IN BOTSWANA 2021
WORLD BUSINESS OUTLOOK

BEST FOREX RATES BOTSWANA 2021
FINANCE DERIVATIVE

BEST FOREX BANK BOTSWANA 2021
GLOBAL BANKING AND FINANCE AWARDS

BEST CORPORATE BANK BOTSWANA 2021
GLOBAL BANKING AND FINANCE AWARDS

BEST FOREIGN EXCHANGE BANK IN BOTSWANA 2021
GLOBAL FINANCE

CASE STUDY/CSR SECTION: LIVING OUR VALUES

During the month of May, the Bank focused not only on its values but also on the importance of the health and well-being of our community. Living our Values donations to create a better place to live, work and play for people in our communities.

Living our Values Month – Mogoditshane CSR initiative

Colleagues from Mogoditshane branch kicked off the "Living our Values month" with a CSR initiative initiated by their team. With help from the Area Councilor, the team identified four families that required basic needs. The money contributed by both the Team and the Bank was used to buy food hampers and toiletries were purchased for the families.

The handover took place on Friday 21 May 2021 at the Mogoditshane Main Kgotla in the presence of the Mogoditshane Chief, three Headmen, Village Development Committee (VDC) Representatives and representatives from the four families. The hampers were highly appreciated by both the families and the Chief.

Living our Values Month – FCB's Winter Warmer – Francistown team

Francistown branch spearheaded and supported a "Winter Warmer" initiative and continued to fly the Bank's values flag high. The team identified Lephoi Orphanage, a home to 40 children who have various disabilities, as a cause to assist with in any way. With winter setting in, and the COVID-19 pandemic still rife, the team identified items that would benefit the children.

Collectively, the contribution from the Bank and colleagues amounted to 40 warm blankets, 40 warm hats, 40 lotions and 40 soaps. The handover took place on Saturday, 5 June 2021 at Lephoi Orphanage.

Living our Values Month – FCB partners with "Mosadi – My Sisters Keeper"

Colleagues from First Capital House and Mogoditshane branch supported the "Mosadi – My Sisters keeper" CSR initiative and positioned the Bank as one that cares for the community that we operate in. Collectively, the contribution from the Bank and colleagues amounted to 103 packs of sanitary pads and 55 baby blankets.

The handover took place on Monday 31 May at Princess Marina Hospital in the presence of hospital management.

Living our values month – FCB partners with Ramotswa School of the Deaf

The "Living our Values" CSR month came to an end with a handover event that took place on the 12 June 2021 at Ramotswa School of the Deaf.

The Bank purchased a television set (worth over BWP10 000) to enable the school to broaden their syllabus scope by providing sign language educational programmes and entertainment. Colleagues from Capital House (Old Lobatse Road) and Main Mall Loan Centre also donated toiletries

Donation to Cheshire Foundation

The Risk and Compliance Department spearheaded a Christmas Hamper donation to Cheshire Foundation. The Bank donated bedding, disposable nappies and wipes (valued at BWP5 000) as well as a cheque of BWP5 000.

Breast Cancer Awareness Month initiative

October marks Breast Cancer Awareness Month, an annual campaign to increase awareness of the disease. The Bank took a stance against a disease that affects too many men and women worldwide.

First Capital Bank teamed up with Journey of Hope Botswana (JOHB) for the month of October to support their mission to prevent and detect breast cancer as well as unite those fighting it. JOHB is a not-for-profit organisation of volunteers whose aim is to promote breast cancer awareness throughout Botswana.

First Capital Bank Festive Showdown

The 3rd Annual First Capital Bank Festive Showdown (in partnership with the Francistown School of Chess) took place between 10 and 13 December 2021. Although the COVID-19 fourth wave and travel bans limited the number of international participants who could attend, the tournament was a success

BEING POSITIONED FOR VALUE CREATION

Overview of how our purpose, vision, values, strong leadership and good governance position us for long-term value creation

VISION

First Capital Bank aims to be a leading regional bank that partners with our customers to help them achieve their extraordinary

MISSION

The Bank aims to achieve this vision by:

- Expanding and consolidating its regional market share
- Offering comprehensive and innovative products and services
- Deploying advanced Information and Communication Technology (ICT) delivery platforms
- Prioritising customer service levels
- Providing strong leadership and management
- Implementing strong and robust principles of corporate governance

OUR VALUES

INNOVATIVE

We are champions of innovation

Good customer service starts with a warm and welcoming attitude

SERVICE EXCELLENCE

We are happy to serve

Good customer service starts with a warm and welcoming attitude

COLLABORATIVE

We are collaborative

Teamwork is the best way to create a winning culture and make everyone feel included

INTEGRITY

We are people of integrity

Be honest, reliable and show respect for others

CITIZENSHIP

We strive to be a better citizen

Taking care of the environment and the people in our community

OUR PRODUCTS AND SERVICES

We service the needs of

- Retail customers, being individuals ranging from first-time account holders to high-net-worth individuals

- Businesses of all kinds, including sole proprietorships, SMEs, large listed corporates, as well as institutional clients such as NGOs, embassies and government institutions.

Banking Products

Transactional Products	Investment Products	Lending Products
▪ Current accounts ▪ RTGS/EFT ▪ Payroll Processing – Available in BWP, USD, ZAR, GBP and EUR	▪ Savings ▪ Fixed deposits ▪ Call deposits – Available in BWP, USD, ZAR, GBP and EUR	▪ Term Loans ▪ Overdrafts ▪ Asset Based Finance ▪ Bank Guarantees ▪ Letters of Credit ▪ Consumer Lending (payroll deduction) – Available in BWP, USD, ZAR, GBP and EUR

Foreign Exchange Services	Other Services
▪ Foreign Currency (Cash) ▪ Remittances (TT) ▪ Forwards ▪ Swaps – Available in USD, ZAR, GBP, EUR, YEN and INR	▪ Personalised Relationship Management ▪ Visa Debit Cards ▪ Internet Banking ▪ Mobile App for Corporates and Individuals ▪ ATMs

2 PERFORMANCE AND OUTLOOK

CHAIRMAN'S REVIEW

HITESH ANADKAT
CHAIRMAN

> **"Since launching in Botswana in 2008, First Capital Bank has progressed from being a newcomer in Botswana's highly competitive banking sector to a multi-award-winning financial institution, making our presence felt in vital market segments. As a major shareholder and chairman of the Bank since its inception, I am pleased with the progress the Bank has made, detailed in this annual report."**

Completing our 13th full year of operation in Botswana, First Capital Bank has delivered continued strong growth and demonstrated steadfast resilience against the backdrop of the unprecedented impacts of the COVID-19 pandemic. Being a member of the FMBCapital Holdings Group, listed on the Malawi Stock Exchange and comprising banking operations in Malawi, Mozambique, Zambia and Zimbabwe and a shared services technology and operations hub out of Mauritius, has allowed First Capital Bank to leverage its philosophy of "Belief comes first" with the Group's investment in technology and human resources.

Context

Globally, the sustained fiscal stimulus from developed economies, supported by vaccine roll-outs, has allowed the commencement of a worldwide economic recovery in 2021. Massive liquidity, pent up demand from consumers and historically low interest rates have driven renewed growth in demand, particularly for commodities. Supply has been constrained by logistics bottlenecks and challenges in bringing back full manufacturing capacity across Europe, Asia and America. Inevitably, inflation has risen dramatically and forecasts for significant interest rate increases by Central Banks are seen for 2022 and beyond. The recent and continued hostilities in Ukraine are generating further unprecedented supply side shocks from fuels to cereals, all of which have the potential to exacerbate the inflation rate risks and duration.

Locally, the rise in global commodity prices had a positive impact with both volumes and prices of Botswana's key exports rising steadily. Tourism, which had been particularly hard hit from COVID-19 travel restrictions in 2020, was dealt a further blow with the discovery in Botswana and South Africa of the more virulent Omicron variant in late 2021 resulting in embargoes on movement of people to and from the region, which will delay the nascent recovery in this important segment. The non-diamond private sector reflected a strong trickle-down effect from the rising commodity prices with a broad-based economic recovery during the year contributing to growth in GDP well beyond initial projections.

Imported inflation and substantial increases in administered prices (fuel and electricity in particular) have pushed Botswana's CPI well beyond the Bank of Botswana's upper threshold by year end. While the stated monetary policy is to only amend rates where sustained inflation is expected to fall outside the target range, given the macro events currently being experienced, we expect to see a measured rise in rates during 2022.

Structural reform in Botswana is expected to gain momentum in 2022, particularly in the public sector. We are confident that the government will apply a cautious and prudent approach regarding implementation of such reforms to ensure that the overall objectives are achieved while mitigating against negative outcomes.

Our business in 2021

We welcomed Reinette van der Merwe as an executive director in January 2021 and she has maintained the momentum that our previous chief executive officer, Jaco Viljoen, had developed through his leadership of the bank over the previous seven years. We were shocked and deeply saddened by the sudden passing of Boitumelo Tibone in July. Her kind demeanour and contribution to the Board and the Bank will be sorely missed. We are currently in the process of appointing a new independent non-executive board member. Our Board comprises a broad mix of seasoned professionals and shareholder representatives in compliance with the relevant Botswana and Group corporate governance requirements. Importantly, this Board actively supports the Bank's on-going strategy to remain agile, competitive and responsive to the needs of our customers while delivering sustainable returns to all stakeholders.

The Bank maintained its unique track record in Botswana of profitability every year since its establishment in 2008, delivering a record profit after tax of BWP103 million for the current year. This excellent result was supported by substantial growth in the consumer lending book that ended the year in excess of BWP1 billion, supported by a growth in total liabilities of BWP1.2 billion to BWP4.7 billion. The lending portfolio mix remains balanced between our target markets and funding is similarly diversified with a growing contribution from current, savings account and term deposit balances. The Bank's emphasis on risk management and prudent lending ensured a modest net impairment on financial assets of only BWP28.3m. The Bank's cost to income ratio has continued to decline, in part, reflecting efficiencies derived from participation in the Group's investment in shared technology and infrastructure that would otherwise by wholly borne by the Bank. The Bank's capital adequacy ratio at year end was 15.88%, comfortably above the regulatory minimum of 12.5%.

The operational resilience of the Bank, as demonstrated by these stellar results and achieved despite the challenges created by the COVID-19 pandemic, are also a tribute to the tenacity, professionalism and hard work of our dedicated staff and management team. We continue to invest in this critical component of our business with ongoing training and a highly successful internship programme.

The Board has implemented a robust internal controls and risk management framework. This ensures the growth of the bank is achieved in a sustainable manner in line with board's agreed level of acceptable risk and compliant with all relevant regulatory requirements.

The Bank's achievements are not only represented in our financial results but through the award of internationally recognised banking accolades such as 'Best Commercial Bank Growth in Botswana' award by Capital Finance International magazine in 2020, and in 2021 'Best Foreign Exchange Bank in Botswana' award by Global Finance and "The Best Bank in Botswana" by Global Finance in its 28th Annual Best Bank Awards.

Strategy for the future

It is clear that the Bank has now successfully migrated to the "middle tier" of commercial banks operating in Botswana, having built the trust and support of all stakeholders from its considered, sustainable and progressive growth over the past decade. The Bank has established a solid foundation for continued growth with its emphasis on investing in people and technology. We intend to continue with this proven strategy and believe it will remain a key differentiator for the Bank going forward. We see the opportunity for providing a broader suite of services to our customers in collaboration with the other banks in the Group, particularly as trade within Africa is being promoted by the Continental Free Trade Treaty and historically there has been considerable trade within the countries in which the Group has representation.

Thanks

I wish to thank my fellow Board members, executive management, and all of our staff for their contribution to the Bank's success in 2021. The challenges we faced were ably met in the spirit of entrepreneurship and agility, which bodes well for our future.

Mostly importantly I would like to thank our customers, regulators and other stakeholders for their continued confidence in us.

HITESH ANADKAT
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REVIEW

REINETTE VAN DER MERWE
CHIEF EXECUTIVE OFFICER

> "As a resource-rich country, Botswana's economy relies on diamond mining, which is 20% of its GDP and about 66% of its foreign exchange income. When the COVID-19 pandemic exploded across the globe in 2020, the demand for diamonds contracted by 26.5% (S&P ratings agency), contributing to an 8.5% contraction of the economy."

By the end of the third quarter in 2021, prices had recovered, and S&P has forecasted that the sector would rebound and improve fiscal and external performance during 2022 and 2023. Although this improvement is welcome, mining and other economic outputs still need to reach pre-COVID levels.

The country is still facing a budget deficit that the government expects to widen from 3.7% in 2021 to 4% in 2022, resulting in increased public debt to 26.8% of GDP in 2022 (2021: 22.4%).

Most concerning is the supply-side inflation which already exceeds 10.5% and is being driven by fuel and energy increases – partly an outcome of the Russia and Ukrainian conflict that is already having global consequences.

Businesses are therefore still operating in a challenging environment where market liquidity is stressed due in part to government projects – a primary source of economic activity – having been delayed. We are hopeful that this scenario will change in 2022 as government refocuses on building the economy through a greater contribution from Botswana based suppliers.

Our response to an operating environment that continued to be dominated by the COVID-19 pandemic and subdued levels of economic activity was to concentrate on our strengths.

We used our reputation for corporate agility and responsiveness to reinforce our existing customer relationships, engaging with them regularly and proactively suggesting financial solutions for their needs. New relationships were created by leveraging opportunities to show prospective customers practical ways in which we could help build their companies and enterprises.

As part of our market-responsive approach, we assess all growth opportunities carefully so that investments in brick and mortar infrastructure are appropriate in an era where the emphasis is on digital expansion. We opened our new headquarters in Gaborone's new CBD on 30 November 2018 and have four branches and six loan centres. We launched our fifth branch and another loan centre in Maun in April 2022, which has been welcomed by the local business community. We are confident that it is an investment that will prove its worth in the future.

Our structure and operating model assist in attracting experienced bankers to our ranks and, most importantly, retaining these skills. The best talent is attracted by the appeal of working in an environment where there are opportunities to gain experience, new skills and, critically, play a critical role in growing the Bank.

The Bank continues to benefit from participation in the Group's technology and, services platform which supports our growth and concurrently ensures effective and efficient risk management controls.

2021 results

We continued to focus our efforts on growing assets in a consistent and measured basis in line with a broad base of liabilities. The consumer lending book grew by 54% year-on-year to BWP1.1 billion while the corporate book increased by 27% to BWP1.8 billion, impressive results given the subdued economic environment. In an increasingly competitive environment for liabilities we managed to grow customer deposits by 22% to BWP3.7 billion at year end.

The impressive increase in assets generated a 20% rise in interest revenue over that achieved in 2020 while interest paid over the same period only increased by 11% in comparison, allowing a 25% growth in net interest income to BWP252 million.

The contribution to total operating income from fees, commissions and foreign currency reduced by 5% year-on-year, illustrating the tough trading environment in the foreign exchange markets, limited increases in fees and constrained transaction volumes. Our ambition is to grow this contribution over time through improved transaction volumes and the introduction of products offering customers greater control and enhanced functionality over their banking transactions.

While our investment in human capital, with an enlarged head count of 205 and increased cost of 18% over the prior year has contributed to a growth in total operating expenses, the implementation of tight controls limited the year-on-year increase to only 5.4%.

We have continued to improve our credit risk processes and enhanced collection mechanisms that have allowed a reduction of BWP4.9 million in impairment losses to BWP28.3m in 2021.

The Bank's profit after tax rose by 47.7% from that in 2020 to BWP103 million – a stellar result which is attributable to the immense efforts of our staff under extremely challenging circumstances and one we are immensely proud of.

The year ahead

While the battle with and impact from the COVID-19 pandemic will no doubt continue in 2022 we believe that as a country, and as a bank, we are better prepared to withstand such challenges than we were a year ago. In addition, however, we now face sustained growth in inflation prompted by factors largely beyond our control in Botswana, although increases in the fuel levy and VAT rate will have a temporary compounding impact. International food and fuel prices are being propelled by what, regrettably, appears to be a drawn out conflict in Ukraine, compounded by breakdowns in logistics and delivery chains forcing a constraint on the global movement of products in a fiscal environment that is characterised by a flood of cheap funding from central banks the world over, in the past two years. This has created an unprecedented scenario where there is a reduction in supply simultaneous to sustained demand following the economic recovery from the COVID-19 pandemic. The likely unbalanced reaction by central banks across the developed and developing world to such inflationary pressures will generate greater uncertainty as to interest rates and create higher volatility in foreign exchange markets.

One of the most significant changes within the banking sector was the February 2022 decision by the Bank of Botswana to remove the Bank Rate, replacing it with the Monetary Policy Rate (MoPR), as the benchmark for setting the Prime Lending rate by commercial banks. Critically, commercial banks will now also be able to establish their own margin over MoPR allowing greater competition in the banking sector, although for the first year after the introduction of this new regime the Prime Lending rate will be capped at current levels, only changing in line with changes in the underlying MoPR. It remains to be seen what impact this will have on the banking sector.

Coming off a strong base in 2021, we believe management of liquidity and interest margins will be our greatest challenge for the year ahead. We will continue to stand by our customers, assisting them as they, too, meet these challenges.

Corporate citizenship

As a responsible corporate citizen of Botswana, we believe that we must support the communities within which we operate. We support various projects in the health, education and sports sectors and have invested in a range of environmental projects. Our people are encouraged to launch practical initiatives and participate in community projects where this is possible by volunteering their services. In 2021, we allocated P1 million to our corporate social investment spending.

Appreciation

We pride ourselves on our spirit of entrepreneurship. It is this spirit that has created an agile, responsive institution that has proved to be an able competitor in a crowded market.

Our competitive spirit is present at Board level and permeates throughout all levels of our operations, resulting in dedication and teamwork that is unmatched by others in Botswana.

I thank the Board, the executive management team and all our people for their enthusiasm and efforts in 2021. We faced many challenges together and produced sterling results in a difficult operating environment.

I look forward to your support and our continuing growth in the future.

REINETTE VAN DER MERWE
CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER REPORT

NKELETSANG KGABUNG
HEAD OF FINANCE

> **"The highlight of the year has undoubtedly been the Bank's ability to rise above the challenges presented by an underperforming economy as we continue to feel the impact of the COVID-19 pandemic, its associated socioeconomic challenges, and reduced GDP contribution from the mining sector, which, although recovering, still has some way to go before resuming its place as the nation's prime exporter and revenue earner."**

Our income grew by BWP46.6 million during the year under review, attributed primarily to a 25% increase in interest income from consumer lending. Our primary product is consumer lending which comprises around 57% of the total interest income received.

The banking book grew by BWP761.1 million in 2021, with growth again primarily driven by the consumer lending book, which grew by 54% and now stands at more than BWP1 billion.

Year-on-year growth of commercial loans was 27%, which supported improvement in fee and transaction incomes that were impacted by lockdown and movement restrictions.

This was achieved in an economic environment where credit risk had risen significantly, and levels of non-performing loans and credit provisions had to be increased. Naturally, the Bank was not immune to these developments, however, the nature of our lending book has reduced the impacts experienced by others in Botswana's financial services community.

A benefit of our well-defined lending policy, especially in these tough times, was that the Bank could focus on maintaining – and in some areas improving – credit risk and management processes. These included using relations management and credit teams to monitor the performance of the loan book and identify clients beginning to suffer from financial stress, allowing us to proactively engage with customers to assist and introduce mutually acceptable solutions to problems.

Because the Bank, as part of the banking sector and in line with other businesses, had to comply with government's COVID-related restrictions, it was also subjected to the liquidity, funding and exchange rate volatility that arose as a result and which impacted the performance of financial institutions. The Bank and the financial sector dealt with these issues and continued to perform satisfactorily in most areas.

Non-interest income decreased slightly due to the reversal of commission income of BWP1.49 million in our wholly owned subsidiary, Jetwig Proprietary Limited, which trades as the First Capital Bank Insurance Agency. Separate annual financial statements were prepared for Jetwig in 2021, and this required the reversal of the commission income in the Bank's consolidated financial statements. In addition, forex trading and revaluation gains, which declined by 9% due to decreased transaction volumes and compressed margins, contributed to the decrease.

Operating costs increased by BWP7.6 million due to staff costs incurred as the Bank expanded its operations and recruited staff, and salary increases for the 2021 year were approved and paid. Group costs incurred for strategic and technical support required to meet the demands of growing operations in Botswana grew by 9%. However, group costs were offset by cost savings in audit fees, marketing, and expenses incurred on renting business premises.

Operating environment

A sharp contraction in GDP was experienced in 2020, with the growth rate slipping to -8%. A modest rebound occurred in 2021, but the lingering impact of COVID-19 remained. Despite this, the year ended with GDP recovering to 9%, although this was achieved from a low GDP base.

We expect that GDP will continue to gather strength as the economic recovery progresses over the next year. However, this is contingent on the government's approach to defeating the COVID virus, the ongoing success of the national immunisation campaign, and the potential impact that the Russia/Ukraine conflict will have on the global economy – particularly energy and fuel prices. The GDP growth rate is likely to decelerate slightly in 2022 and 2023 to around 3% to 4%.

The country's vaccination programme has reached much of the population and together with the lifting of movement restrictions, both locally and internationally, has contributed to a more positive outlook. However, the ongoing conflict in Eastern Europe could influence the ongoing recovery of Botswana's economy and the longer the conflict continues, the more likely it is to impact the recovery of economies globally.

The key to sustained economic improvement in Botswana is the mining sector's performance. With the improvement in global commodity prices, the industry has returned to pre-COVID activity and profit levels. If this sector's resurgence continues, the economy will respond, and the rippling effect will spread to broader economic activities and drive accelerated economic recovery.

As has already been mentioned elsewhere in this report, supply-side inflation growth is an area of concern. The Consumer Price Inflation Index (CPI) inflation rate rose to around 10.6% in February 2022, driven by the modest recovery in domestic demand which raised prices, the easing of lockdown measures, an increase in administered prices and government taxes and the rising cost of imported goods.

We expect that overall the inflation rate will begin spiralling downwards, and the rate will decrease to around 6% in the medium term, depending on the conflict in Europe which could perpetuate the inflationary environment longer than we expect.

As global economies have recovered and central banks removed the restrictions on interest rates to sustain demand and assist financially stressed consumers, the anticipated increases in interest rates have taken place, which also act to curb inflationary pressures.

The Bank of Botswana's monetary replaced the Bank rate with the Monetary Policy Rate (MoPR), which has become the anchor policy rate and has been linked to the 7-day BoBC. The MoPR was increased by 51 basis points on 28 April 2022. Although there has been other developments around interest rates (discussed elsewhere in this report), nothing has fundamentally changed. We will continue to monitor events and respond accordingly.

The impact of inflation on our customers, business and the economy

Because an inflationary environment increased the financial pressure felt by retail and corporate customers alike through disposable income and business profitability, this can affect their ability to meet their loan obligations. This can be exacerbated by interest rate increases designed to slow inflation growth, as seen in the current increase in the MoPR of 51 basis points.

Rate increases make borrowing more expensive, reducing discretionary spending and thereby reducing GDP growth and causing foreign exchange rates to rise. The stance of the Bank of Botswana to provide a more accommodating approach will encourage economic growth. For the present, we will continue to advise customers and support them through challenging times.

Looking ahead

Despite the operational difficulties during 2021, the Bank has grown its market share and customer base, providing a solid foundation for future development. Our increased investment in digital platforms will continue to strengthen our competitiveness in an active market.

Providing that events beyond our control, such as the conflict in Europe, do not impact too severely on our markets and that the economic growth that has begun continues, we can look forward to another productive and profitable year.

NKELETSANG KGABUNG
HEAD OF FINANCE

3 CORPORATE GOVERNANCE

GOVERNANCE OVERVIEW

The Board is committed to high standards of corporate governance, recognising it as being essential to its ability to ensure and uphold the long-term sustainability of the business and create value for stakeholders. The Board has governance processes in place, within a framework of effective controls, to support its strategic orientations and meet the reasonable expectations of its stakeholders.

The Board provides ethical and effective leadership and sets the example for this in the way it conducts itself and oversees the business and affairs of the Bank. It also promotes a culture in which the principles of integrity, accountability and transparency are embraced by all employees. The Board monitors and adapts practices to reflect global developments in corporate governance principles, ensures smooth business operations and drives optimal stakeholder engagements.

Holding ourselves accountable

The Board assumes ultimate responsibility for leading and controlling the organisation and ensuring it meets all legal and regulatory requirements. To this end, governance standards and practices include:

- strict compliance to rules and regulations
- robust risk governance and internal controls
- strong commitment to ethics and values
- continuous multi-stakeholder engagement

GOVERNANCE STRUCTURE

The Board sets out the strategic direction of the Bank and has entrusted the day-to-day running of the Bank to the executive team. The performance of this team is closely monitored and assessed.

Governance framework

First Capital Bank is led by a unitary Board, which has ultimate responsibility for the overall stewardship and oversight of the organisation. The Bank operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility without abdicating the Board's responsibility.

Key roles and responsibilities

Board of Directors

The Board of Directors are the ultimate decision-makers and are collectively responsible and accountable for the affairs and overall performance of the Bank. It ensures that proper systems and controls are in place to protect the Bank's assets and uphold its good reputation. The Board also determines strategic direction, identifies key risk areas, monitors and evaluates the implementation of policies, and plans and approves the Bank's capital expenditure.

The Board ensures that business activities comply with all legal and regulatory requirements. The detailed responsibilities of the Board are set out in its charter, which may be reviewed on an annual basis or as required in the event of the introduction of, or amendment to, laws and regulations.

Nomination process

The Board assumes responsibility for succession planning and for the appointment and induction of new directors. It undertakes a review of its structure, size and composition on an annual basis or whenever appointments are considered.

This is done to ensure that the Board has a diverse mix of competencies, knowledge and experience, thereby enriching Board discussions through diverse perspectives and improving the quality of decision-making.

The Board has a formal and transparent process in place for the nomination and appointment of new directors. Prospective candidates are assessed based on an established set of criteria that assess each candidate's knowledge, competencies, experience, time commitment, independence, ethics and values.

Board induction and training

Board induction is essential in order to ensure that new Board members are able to assume their roles and become productive Board contributors as quickly as possible. New Board members are provided with all the information and support they need to be confident and productive in their role, including:

- Introduction to their fellow Board members and other key executives
- Overview of the bank's strategic plan and financial position
- Review of governance arrangements
- Meetings with key stakeholders where relevant.

Professional development

The Board is committed to continuous improvement, and ongoing professional development and training are made available as necessary.

Performance assessment

The Board did not undertake an independent Board evaluation process during the reporting period. However, internal assessments were conducted based on each director's skills and experience against their functional areas.

Directors' duties, remuneration and performance

On joining the Board, all directors are made aware of their legal duties and are familiarised with the Bank's operations and business environment. In this way all directors are enabled and equipped to immediately and to effectively contribute to strategic discussions and the oversight of the Bank's strategy and operations.

Conflicts of interest

Conflicts of interest are recognised as a significant reputational and operational risk and the Board makes every effort to identify and address any such conflicts. The Company Secretary maintains a directors' interests register and will present this to shareholders on written request

All potential conflicts of interest are immediately addressed when identified to ensure the good governance of all related transactions and their adherence to the Board's ethical standards.

Chairman

The Chairman provides overall leadership to the Board and ensures its smooth functioning while encouraging the active participation of all members. He ensures that the Board is effective in delivering on its duties of setting and monitoring the Bank's policies, objectives and strategies.

BOARD OF DIRECTORS

The Board is composed of directors coming from different sectors. Every director has drawn from their professional background and expertise in positively contributing to the Board's activities.

The Board is responsible for directing the affairs of the Company in the best interests of its shareholders, in conformity with legal and regulatory frameworks, and consistent with its constitution and best governance practices. The Board of Directors is appointed to act on behalf of the shareholders as stewards of the Bank's affairs.

Non-executive directors

Mr Hitesh Anadkat / **Chairman**

MBA (Cornell University), BSc (Hons) Economics (University of London)

Prior to returning to Malawi to establish First Merchant Bank, Mr Anadkat worked in a corporate finance house in USA specialising in mergers, acquisitions and company valuations. He also holds other directorships in a number of sectors of the Malawi economy, principally, banking, telecommunications, manufacturing and property development.

Mr Hemantkumar (Raj) Patel / **Non-executive Director**

Diploma in Telecommunication Techniques, Principles & Practise of Radio & Television

Mr Patel holds directorships in a number of companies operating principally in the manufacturing sector in Botswana, Zambia and South Africa.

Ms Judy Tsonope / **Independent Non-executive Director**

MBA, Master's in Library Science (MLS), BA and Associate Diploma in Banking

Mrs Tsonope's work experience covers venture capital, development funding, commercial banking and a parastatal organisation (utility sector). She also serves on the boards of other companies in Botswana.

Mr Daniel Swabi / **Independent Non-executive Director**

Bachelor of Law (LLB) (University of Botswana)

Mr Swabi is a legal practitioner and member of the Law Society of Botswana. He is a partner at Osei-Ofei Swabi and Company.

Mr Stephen Pezarro / Independent Non-executive Director

BCompt (Hons) (UNISA), CA

Mr Pezarro is a Chartered Accountant, a Fellow of the Botswana Institute of Chartered Accountants and member of the Institute of Chartered Accountants of Zimbabwe. He serves on the boards of other companies in Botswana, providing professional services.

Mr Richard Wright / Independent Non-executive Director

BCom (Accounting and Business Economics) (UNISA)

Mr Wright has worked in the banking industry for 38 years and has held various leadership roles. His experience covers compliance, credit and operations. He also provides consulting services locally.

Mr Shawn Bruwer / Non-executive Director

ACMA (CIMA), BCom (Management Accountancy), CAIB, Credit Diploma (Institute of Bankers SA)

Mr Bruwer is an experienced executive in the financial and telecommunications sectors in Namibia and Botswana. He has held various executive positions and is experienced in business acquisitions and greenfield start-ups throughout Africa. Previous roles include Chief Information Officer and Chief Operations Officer for a Pan-African financial services group.

Executive directors

Mrs Reinette van der Merwe / Executive Director

(Appointed January 2021)

Qualifications: Master's in Finance and Marketing (University of North-West), CA(SA)

Mrs van der Merwe holds a Masters in Finance and Marketing from the University of North-West (South Africa) and is a Chartered Accountant (CA(SA)). Reinette brings with her 28 years of financial services experience in international markets and across multiple African countries, covering a number of areas including Retail and Corporate Banking.

Composition and meetings

The Board is of the view that its present composition is adequately balanced and that the current directors have the range of skills, expertise and experience to ensure that the Board carries out its duties properly.

The Board meets at least four times a year. There are adequate and efficient systems in place to ensure that the Directors receive all relevant and accurate information to guide them in making necessary strategic decisions and providing effective leadership and control over the Bank's operations.

Meeting attendance in 2021

Board Member	23 Mar 21	16 June 21	14 Sept 21	7 Dec 21
Mr HN Anadkat (Chairman)	√	√	√	√
Mr HK Patel	√	√	√	√
Mr SD Pezarro	√	√	√	√
Mr D Swabi	√	√	√	√
Mrs JN Tsonope	√	√	√	√
Mr RC Wright	√	√	√	√
Mrs BK Tibone*	√	√	N/A	N/A
Mr SS Bruwer	√	√	√	√
Mrs RE van der Merwe[1]	√	√	√	√

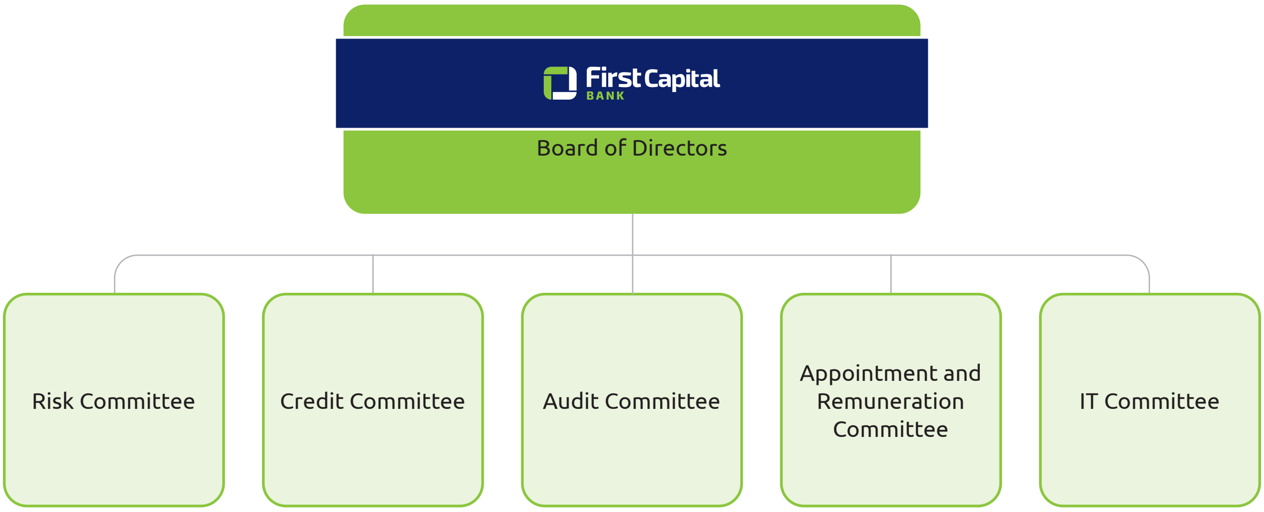
√ = Attended N/A=Not Applicable (* Deceased)

1 The Chief Executive Officer, Mrs Reinette E van der Merwe was appointed as Executive Director on 4 January 2021.

BOARD COMMITTEES

The Board has delegated authority to various Board committees that provide specialist guidance and make recommendations, through established reporting mechanisms, on areas and matters delegated to them. Each committee has its own charter, which is approved by the Board and reviewed as required.

These charters set out, inter alia, the roles, responsibilities, composition and meetings requirements of each committee.



The structures and roles of the committees are as follows:

Risk committee

The Risk Committee assists the Board in relation to assessing, controlling and mitigating business risks. The Committee identifies risks facing the Bank and recommends controls to the Board.

Composition and meetings

The Risk Committee comprises three Non-executive Directors, one of whom is Chairman of the committee, and meets quarterly, at least once a quarter.

Committee members	Q1	Q2	Q3	Q4
Richard Wright (Chairman)	√	√	√	√
Shaun Bruwer	√	√	√	√
Raj Patel	√	√	√	√

√ = Attended

Credit committee

The Credit Committee comprises three Non-executive Directors with a good knowledge of the Botswana economy and business environment. Its overall responsibility is to ensure the soundness of the Bank's credit portfolio (including advances, guarantees and other facilities). Specific responsibilities include:

- Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers.
- Approval of all credit facilities above the discretionary limits set for management save for those facilities requiring full Board approval in accordance with Bank of Botswana directives.
- Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

The CEO attends all Credit Committee meetings in a non-voting capacity.

Composition and meetings

The Credit Committee comprises two Non-executive Directors and meets quarterly, at least once a quarter.

Committee members	Q1	Q2	Q3	Q4
Raj Patel (Chairman)	√	√	√	√
Ms BK Tibone	√	√		
Daniel Swabi	√	√	√	√

√ = Attended

Appointments and remuneration committee

The Appointments and Remuneration Committee is the overseeing body for remuneration decisions within the Bank. The committee has the following functions:

- To determine remuneration structures for appointments and executive directors and senior executive officers of the Bank and to review these annually.
- To ensure that directors receive commensurate market related remuneration subject to the concept of capacity to pay.
- To review and approve recommendations on employee remuneration framework and parameters.
- Evaluate the performance of the senior executive management in light of their annually set goals and targets and set each Executive's performance related reward based on such evaluation.
- Oversee the establishment of the remuneration policy that will promote the achievement of strategic objectives and encourage individual performance.
- Oversee and review all aspects of any share option scheme or share based payments operated by or to be established by the Company.
- Regularly review incentive schemes to ensure continued alignment to creation of shareholder value and ensure that these are administered in terms of the rules.
- Approval of the cost of general salary increments and remain appraised of the mandates for negotiations with the representative Unions or Workers Committees.

Composition and meetings

The Committee consists of three directors and meets at least once every quarter.

Information technology committee

The purpose of the Information Technology Committee (Committee) of the Board of First Capital Bank Limited (the Bank) is to assist the Board to effectively discharge its responsibilities in respect of the following matters:

(a) The technology-related investments, operations, strategies of the Bank and its alignment with the FMBcapital Holdings Group's overall strategy and objectives; and

(b) The Bank's technology risk management and its effectiveness (in conjunction with the Risk Committee).

(c) Oversight of technology and innovation strategies plans and operations, information, cybersecurity and data privacy risk management and third-party technology risk management.

A reference to technology in this Charter encompasses both digital and information technology (IT).

Composition and meetings

Committee members	Q1	Q2	Q3	Q4
Shawn Bruwer (Chairman)	√	√	√	√
Stephen Pezarro	√	√	√	√
Richard Wright	√	√	√	√

√ = Attended

The Committee comprises of three independent Non-executive Directors with one of them appointed the Committee Chairman, and meets at least once every quarter.

The Committee Chairman is responsible for leading the Committee and overseeing processes for the Committee's performance of its role in accordance with the Charter.

The Bank's Company Secretary, his or her designated representative, or such other person as the Board may nominate, acts as Committee Secretary.

Responsibilities of the Committee

In performing its role, the responsibilities of the Committee include, but are not limited to:

Technology Strategy and Investments Oversight

Reviewing and making recommendations to the Board in relation to the Bank's technology strategy.

Receiving reports from management on the implementation of the Bank's and the Group's technology strategy.

Reviewing and making recommendations to the Board on proposals for technology investments, including understanding the balance of the overall investment portfolio across risk and return.

Receiving reports from management on the progress (including post implementation reviews) of all key technology projects.

Receiving reports, as necessary and appropriate, from the Head of Internal Audit and/or the Bank's independent auditors regarding the results of assessments and reviews of technology related risk management, governance, and oversight as well as internal control systems and processes.

Technology Operations and Assets

Reviewing the Bank's strategies for the sourcing and selection of key external technology suppliers.

Reviewing the overall health of the Bank's technology assets, including:

(a) Service performance.

(b) Performance of key suppliers and partners; and

(c) Lifecycle management planning for key technology assets.

Reviewing and making recommendations to the Board on information/data security policies and governance.

Reviewing and advising the Audit Committee on matters which may be relevant to the carrying value of IT assets.

Reporting to the Audit Committee on a half yearly basis in relation to any issues regarding the carrying value of IT assets including any impairment.

Technology Risk, Security and Cybersecurity

Reviewing and making recommendations to the Board and Risk Committee in relation to the overall technology and cyber risk profile of the Bank (including Bank's technology and cyber risk appetite).

Receiving and reviewing reports from management on technology and cybersecurity risk and major technology and cybersecurity incidents.

Attendance by non-members

Each Board member who is not a member of the Committee will receive all Committee meeting papers and may attend all Committee meetings. The Chief Executive Officer, Group Chief Information & Digital Officer and Group Chief Risk Officer are permanent invitees to the meeting..

Other members of management and/or external parties to the Bank may also be invited to attend any Committee meeting.

Reporting

The secretary, is responsible for the maintenance of minutes or other records of the Committee's meetings and activities.

The Committee Chairman provides regular reports to the Board in relation to its activities and makes recommendations, as appropriate.

The Committee refers to the Board, the Audit Committee or Risk Committee any matters that have come to the attention of the Committee that are relevant for noting or consideration, or which should be dealt with by, the Board, the Audit Committee or Risk Committee.

If required, the Committee provides relevant advisory support to the Risk and Audit Committees.

Conflicts of interest

The guidelines set out in the Board Charter, the Companies Act or as may be approved by the Board from time to time relating to declaring and dealing with conflicts of interests at a Board level will apply to Committee meetings.

Committee performance

The Committee reviews its performance annually as part of the annual Board performance review and will report on the findings and any recommendations resulting from its review to the Board.

Board Audit Committee Charter

The Board Audit Committee (the "Committee") is a committee of the Board of Directors (the "Board") of First Capital Bank Limited, from which it derives its authority and to which it regularly reports.

This Committee assists the Board of Directors in fulfilling its oversight responsibilities for:

(a) The integrity of the Banks financial statements.

(b) The Banks compliance with legal and regulatory requirements

(c) The Banks systems and internal controls, and

(d) The performance of the Banks Internal Audit Function and External Auditors.

The Committee performs the following functions:

(a) Assists the Board of Directors in its evaluation of the adequacy and efficiency of the internal control system, accounting practices, information systems and auditing processes applied – within the Bank concerned in the day-to-day management of its business;

(b) Facilitates and promotes communication, regarding the matters referred to in paragraph (a), risk management or any other related matters, between the Board of Directors and the Executive Officers of the Bank concerned and the External Auditor, and the employee charged with the internal auditing of transactions of the Bank; and

(c) Introduces such measures as in the Audit Committee opinion which may serve to enhance the creditability and objectivity of financial statements and reports prepared with reference to the affairs of the Bank concerned.

(d) The Committee Chairman attends the annual general meeting to answer shareholder questions on the Committee's activities.

Membership

The Committee, pending the appointment of a new Non-executive Director, comprises two Non-executive Directors. The Committee comprises not less than three Non-executive Directors appointed by the Board, at least two of whom shall be independent Non-executive Directors.

Committee members	Q1	Q2	Q3	Q4
Mr Stephen Pezarro (Chairman)	√	√	√	√
Ms BK Tibone	√	√		
Ms TN Tsonope	√	√	√	√

√ = Attended

The Board shall satisfy itself that the Chairman of the Committee and at least one member of the Audit Committee has recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.

The Board shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

Only members of the committee have the right to attend committee meetings. However, the external auditor and Head of Finance/CFO will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

Appointments to the Committee shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members continue to be independent.

Secretary of the Committee

The Company Secretary, or his or her nominee, acts as the secretary of the Committee and ensures that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

Meetings

The Committee meets at least four times a year at appropriate intervals in the financial reporting period and otherwise as required.

Outside of the formal meetings, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the CEO, the Head of Finance, the External Audit lead partner, and the Head of Internal Audit. The Committee Chairman, at his/her discretion, may invite other executives to attend and to be heard at meetings of the committee.

Each meeting should receive a report which identifies high level control issues, that require or are subject to remedial action or summarises the remedial action being taken by management.

Discussions in each meeting will cover:

(a) The Bank's operations statistics, issues and key challenges, including frauds, forgeries, status of customer complaints, and losses;

(b) Internal audit reports;

(c) Progress on implementation of audit recommendations from internal audit, external auditors, Bank of Botswana inspectors and/or other Regulators; and

(d) Progress on the internal audit annual plan.

Additional and broad issues to be discussed at each meeting of the regular meeting shall inter alia include:

- First Quarter: Review of annual financial results, including internal controls as would have been reported in the External Audit management letter.
- Second Quarter: Progress of internal audit plan, follow up review of management responses to external auditor's management letter;
- Third Quarter: Review of the Bank's interim financial performance, progress report from management in addressing internal and external audit findings. Recommendation for appointment of external auditors to the main Board;
- Fourth Quarter: Review and approve Annual Internal Audit Plan for subsequent year. The Committee will also review the proposed plan for external audit as well as recommend approval of external audit fees to the main Board.

The following are mandatory attendees:

- Head of Internal Audit
- Head of Finance
- Head of Risk
- Head of Operations
- Chief Executive Officer

Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or external audit lead partner or Head of Internal Audit if they consider it necessary.

Notice of each meeting confirming the venue, time, and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the committee, any other person required to attend not later than five working days before the date of the meeting.

Minutes of Meetings

The Secretary minutes the proceedings and decisions of all Meetings of the Committee, including recording the names of those present and in attendance.

Draft minutes of Committee Meetings shall be circulated to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman.

Responsibilities of the Committee

The Committee should carry out the duties below:

Financial Statements

The Committee examines and reviews the quality and integrity of the financial statements of the Company, including its annual and half-yearly reports, interim reports and any other formal announcement relating to the organisation's financial performance.

(a) The Committee shall review and report to the Board on significant financial reporting issues and judgements which these financial statements contain having regard to matters communicated to the committee by the auditor;

(b) In particular, the Committee shall review and challenge where necessary:

(i) The consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the Company/group;

(ii) Compliance with accounting standards, local and international, compliance with stock exchange and legal requirements;

(iii) The methods used to account for significant or unusual transactions where different approaches are possible;

(iv) Significant adjustments resulting from the audit;

(v) Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments considering the views of the external auditor;

(vi) The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;

(vii) All material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management;

(viii) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board;

(ix) The basis on which the organisation has been determined a going concern;

(x) Capital adequacy and internal controls;

(xi) Compliance with the financial conditions of any loan covenants; and

(xii) Reviewing special documents (such as prospectuses).

Narrative Reporting

Where requested by the Board, the Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced, and understandable and provides the information necessary for shareholders and other stakeholders to assess the Company's performance, business model and strategy.

Internal Controls and Risk Management Systems

The Committee:

(a) Keeps under review the adequacy and effectiveness of the organisation's systems of internal control, including internal financial control and business risk management and maintaining effective internal control systems; and

(b) Reviews and approves the statements to be included in the annual report concerning internal controls and risk management.

Internal audit

The Committee:

(a) Approves the appointment or termination of Head of internal audit;

(b) Reviews and approves internal audit charter. Ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;

(c) Ensures the internal auditor has direct access to the Board Chairman and to the committee Chairman, and is accountable to the committee;

(d) Reviews and approves annual internal audit plan;

(e) Receives a report on the results of the internal auditor's work on a periodic basis;

(f) Reviews and monitors management's responsiveness to the internal auditor's findings and recommendations;

(g) Meets with the head of internal audit at least once a year without the presence of management;

(h) Monitors and reviews the effectiveness of the bank's internal audit function, in the context of the bank's overall risk management system;

(i) Safeguards the organisation's assets against unauthorised use or disposal; and

(j) Directs and supervises investigations into matters within its scope, for example, evaluations of the effectiveness of the organisation's internal control, cases of employee fraud, misconduct, or conflict of interest.

External audit

The Committee:

(a) Considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the bank's external auditor.

(b) Oversees the relationship with the external auditor including (but not limited to):

 (i) Recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;

 (ii) Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

 (iii) Assessing annually their independence and objectivity considering relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;

 (iv) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the organisation (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;

(c) Meets regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit.

(d) Reviews and approves the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

(e) Obtains assurance from the external auditor(s) that adequate accounting records are being maintained.

(f) Reviews the findings of the audit with the external auditor. This shall include but not be limited to the following:

 (i) A discussion of any major issues which arose during the audit

 (ii) Key accounting and audit judgements;

 (iii) Levels of errors identified during the audit; and

 (iv) The effectiveness of the audit process.

Business Conduct

The Committee:

(a) Monitors the implementation of the organisation's Code of ethics;

(b) Reviews any statements on business conduct and ethical standards or requirements for the organisation and assisting in developing such standards and requirements;

(c) Ensure compliance with the requirements of the articles of association, laws and regulations of any other applicable statute and of controlling bodies;

(d) Identifies any violations of ethical conduct; and

(e) Gives recommendations on any potential conflict of interest or questionable situations of a material nature.

Compliance

The Committee:

(a) Reviews the effectiveness of the system for monitoring compliance with laws, regulation, Bank Code of Ethics, procedures, Bank of Botswana Directives and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance.

(b) As often as the Committee may consider necessary, it will obtain regular updates from management and Bank Legal Counsel regarding compliance matters.

Fraud

To obtain reasonable assurance with respect to Bank's procedures for prevention and detection of fraud, the Audit Committee:

(a) Oversees management's arrangements for deterrents and detection of fraud;

(b) Ensures that appropriate action is taken against known perpetrators of fraud;

(c) Challenges management, Internal Audit and External Auditors to ensure that the Bank has appropriate anti-fraud programs and controls in place to identify potential fraud and to ensure that investigations are undertaken if fraud is detected.

Reporting Responsibilities

The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities.

This report includes:

(a) The significant issues that it considered in relation to the financial statements and how these were addressed;

(b) Its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and

(c) Any other issues on which the Board has requested the Committee's opinion.

The Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Board of Directors Chairman
(Mr Hitesh N. Anadkat)

"The Board promotes a culture in which the principles of integrity, accountability and transparency are embraced by all employees."

EXECUTIVE MANAGEMENT

Group executives

Mrs Reinette van der Merwe / **Executive Director**

Mrs van der Merwe holds a Masters in Finance and Marketing from the University of North-West (South Africa) and is a Chartered Accountant (CA(SA)). Reinette brings with her 28 years of financial services experience in international markets and across multiple African countries, covering a number of areas including Retail and Corporate Banking.

Mr Andre Potgieter / **Chief Commercial Officer**

Mr Potgieter holds a Master's in Financial Management, after completing degrees in Agricultural Economics and Honours in Business Management. He has 23 years of banking experience. Prior to joining First Capital Bank, he worked in various markets in Africa for Absa and Barclays.

Mr Molefe Petros / **Chief of Operations and IT**

Mr Molefe Petros' extensive experience in the IT industry includes Chief Information Officer and Group Head Digital Banking Platforms (BancABC/Atlas Mara), Chief Information Officer/ Head Innovation Department (Bayport Financial Services) and IT Manager and Applications Analyst (Barclays Botswana), IT System Analyst (National AIDS Coordinating Agency), and Lead Systems Developer (Data Generale, Australia). He holds a Bachelor Communication Design/Information Technology (Queensland University of Technology), an MSc Strategic Management (University of Derby), and an MDP (University of Stellenbosch).

Mrs Nkeletsang Kgabung / **Head of Finance**

Mrs Kgabung holds an AAT, UK and is a Fellow of the Association of Chartered Certified Accountants (FCCA, UK) as well as an Associated Certified Professional Accountant (ACPA, BICA Botswana and Senior Management Development Program from University of Stellenbosch).

Prior to joining First Capital Bank in August 2017, Nkele worked at Imara Holdings Limited, a financial services company, where she was the Group Financial Controller. Nkele has more than 20 years' experience in corporate and financial services sector.

Mr Vijay Kumar / **Head of Credit**

Mr Kumar holds an MBA from the Indian Institute of Management, Ahmedabad (IIMA). He has 17 years of banking experience and has worked in two of the largest private sector banks in India. Vijay has worked extensively in the area of credit risk, largely in the areas of corporate SME, infrastructure and agribusiness. Furthermore, he has previously worked in a food processing company where he got to experience of the customer side of banking. He joined First Capital Bank in 2017.

Mr Mani Neb / **Head of Treasury**

Mr Neb holds an M.Com, PGDFM and MBF from the Indian Institute of Finance, India. He has over 11 years' experience in treasury and banking, including working as the Head of Treasury with Azizi Bank for over four years. Furthermore, he has worked at ICICI and Indusind Bank, and was part of Global Markets Group Treasury. Mani has had the opportunity to lecture at American University, Educomp and AKS Institute of Management as a visiting faculty lecturer.

Mr Thatayaone Nicholas Matlapeng / **Country Manager Consumer Lending**

Mr Matlapeng is a certified Professional Retail Banker (RBA International UK), holds a degree in Business Administration (Marketing) (UB), as well as MDP (University of Stellenbosch). For the past eight years, Nico held senior management positions in various top tier banks in Botswana. He has experience in running retail businesses with focus on lending (personal loans, micro lending, overdrafts, credit cards, mortgages, and vehicle and asset finance) as well as customer value proposition building.

Mr Sandisiwe Dube / **Country Risk Manager**

Mr Dube is an experienced analytics professional with over eight years of progressive experience in regulatory and banking environments, particularly in risk management. He joined First Capital Bank in June 2021 from his previous role as Group Risk Manager – Credit Risk, Model Risk and Analytics at FMBcapital Holdings, where he garnered experience in supporting model development and validation projects. Sandisiwe holds a Master's in Financial Engineering and a Bachelor's in Actuarial Science, both from National University of Science and Technology (Zimbabwe).

Ms Mbakiso Masesane / **Head of Compliance**

Ms Masesane holds a Bachelor's in Economics (University of Botswana), a Post-graduate Certificate in Enterprise Risk Management (Botswana Accountancy College), Compliance Management (University of Cape Town) and Certificate of Proficiency – Long-term Insurance and Short-term Insurance. Mbakiso is a member of the Compliance Institute of Southern Africa (CISA) and the Association of Certified Anti-Money Laundering Specialists (ACAMS). She has more than seven years' banking experience and joined First Capital Bank in January 2015.

Ms Lebogang Seleke / **Head of Internal Audit**

Mrs. Lebogang Seleke is a Chartered Accountant (ACCA) with over 9 years' work experience in external audit from one of the Big 4 Accounting firms and banking. She also holds a Master of Science in Professional Accountancy from University of London and a Bachelor's degree in Accounting from University of Botswana. She is a member of the Association of Chartered Certified Accountants (ACCA), Botswana Institute of Chartered Accountants (BICA) and Institute of Internal Auditors Botswana (IIAB).

Ms Goitseone Moshabela / **Head of Human Resources**

Ms Moshabela holds a Master's in Public Administration, with specialisation in Human Resources Management. She has more than 10 years' experience in a leading international bank in Botswana in areas relating to branch management, credit and human resources management.

Dr Hajra Mahomed-Tajbhai / **Chief of Staff and Head of Marketing & Communications**

Dr Tajbhai holds an MBA (with a focus on markets in emerging countries) from the Graduate School of Business at the University of Cape Town. Hajra also holds a BSC in Complementary Health Sciences and a Bachelor in Complementary Medicine (Naturopathy) from the University of the Western Cape. With her entrepreneurial talents, she began her own start-up and ran a multi-disciplinary health centre for three years (2012 – 2015). Hajra joined First Capital Bank in 2018.

Mr Letlhogonolo Matlhabe / **Head of Legal**

Mr Matlhabe graduated with a Bachelor of Laws (LLB) from the University of Botswana and was admitted to practice as an attorney in Botswana in 2009. He also holds a CSSA Professional Post Graduate Qualification in Company Secretarial and Governance Practice from the Chartered Governance Institute of Southern Africa. He was in private practice from 2009 to 2017 where he was extensively involved in civil and corporate litigation. He has previously worked as a Senior Associate at both Akheel Jinabhai and Associates and Desai Law Group. He joined First Capital Bank in April 2017.

4 ANNUAL FINANCIAL STATEMENTS

CONTENTS

ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of the financial statements of First Capital Bank Limited that give a true and fair view, comprising the statement of financial position at 31 December 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

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

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

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

Approval of the annual financial statements

The annual financial statements of First Capital Bank Limited, as set out on pages 40 to 103, were approved by the Board of Directors on 12 May 2022 and signed on their behalf by:

Stephen D. Pezarro
Director

Judy N. Tsonope
Director

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the financial statements of First Capital Bank Limited for the year ended 31 December 2021.

Business activities

The Bank is registered as a commercial bank and officially opened in May 2008.

Stated capital

Stated capital comprises 101 833 333 (2020: 101 833 333) issued and fully paid ordinary shares of no-par value.

The shareholding at the reporting date was:

Voting rights			
FMBcapital Holdings Plc (Mauritius)	51.13%	Meeta Anadkat	1.99%
Everglades Botswana (Pty) Ltd	26.23%	Dillon Hitesh Anadkat	0.80%
Premier Capital (Mauritius) Limited	12.99%	Sheena Anadkat	0.80%
Prime Bank Ltd (Kenya)	5.26%	Shaun Anadkat	0.80%
Beneficial ownership			
FMBcapital Holdings Plc (Mauritius)	38.60%	Meeta Anadkat	2.50%
Everglades Holdings (Pty) Ltd, Botswana	32.96%	Dillon Hitesh Anadkat	1.00%
Premier Capital Ltd, Mauritius	16.32%	Sheena Anadkat	1.00%
Prime Bank Ltd, Kenya	6.62%	Shaun Anadkat	1.00%

Preference shares

Preference shares of no-par value are 26 132 000 (2020: 26 132 000).

Directors

Non-executive Director

Hitesh N. Anadkat (Chairman)
Hemantkumar K. Patel
Daniel Swabi
Stephen D. Pezarro
Judy N. Tsonope
Richard C. Wright
Shawn S. Bruwer
Boitumelo K Tibone (up to 27 July 2021)

Executive Director

Reinette E. van der Merwe (4 January 2021)

Mrs BK Tibone, who was a non-executive director, is deceased and was removed from the Board on 27 July 2021.

Secretary

Letlhogonolo Matlhabe

Registered address

Plot 50370,
Acumen Park, Fairgrounds
Gaborone, Botswana

Company number

UIN BW00000729396

Auditors

Deloitte & Touche
Plot 64518
Fairgrounds
Gaborone, Botswana

Events after the reporting date

Apart from receipt of restricted funds held in relation to the Bank of India (Botswana) Limited transaction after the reporting date and proposed ordinary dividend (refer to note 46), there were no other events noted that required to be disclosed or adjusted for in the financial statements of First Capital Bank Limited. The effects of the COVID-19 pandemic both direct and indirect have been noted (refer to note 44).

STATEMENT ON CORPORATE GOVERNANCE

The Bank has a unitary Board of Directors, which at the beginning of the year comprised of a Non-executive Chairman, seven (7) Non-executive Directors and one (1) Executive Director, the Chief Executive Officer. Sadly, one of the Non-executive Directors (Ms. B.K. Tibone) passed away, leaving a total of eight directors, five (5) of whom are independent. The Bank is a subsidiary of a Mauritius domiciled holding company and is compliant with the Mauritius code.

The Board meets at least four times a year. There are adequate and efficient systems in place to ensure that the Directors receive all relevant and accurate information to guide them in making necessary strategic decisions and providing effective leadership and control over the Bank's operations.

Read more about the Board and its subcommittees in the Corporate Governance section of this report.

Directors' shareholdings:

1. Mr. HN Anadkat owns 33.20% of the Bank's ultimate beneficial ownership, primarily through Premier Capital (Mauritius) Limited which has shareholding in one of the bank's major shareholders being FMBcapital Holdings Plc (Mauritius).
2. Mr. HK Patel holds 32.96% (Everglades Botswana (Pty) Ltd)

Election and re-election of directors:

In terms of the constitution, directors retire every three years. All new directors participate in an induction programme as per the board charter.

(i) The following directors retired by rotation in June 2021 and were all re-elected:

Mr. SD Pezarro

Mr. D Swabi

(ii) The Chief Executive Officer, Mrs Reinette E van der Merwe, was appointed as an Executive Director on 4 January 2021.

INDEPENDENT AUDITORS REPORT

TO THE SHAREHOLDERS OF FIRST CAPITAL BANK LIMITED

Opinion

We have audited the financial statements of First Capital Bank Limited ('the Company'), set out on pages 10 to 74, which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>

Impairment of loans and advances to customers

The Bank's core business is to provide loans and advances to individual (retail) and corporate customers which form a significant portion of the Bank's total assets. Expected credit losses (ECL) relating to loans and advances to customers represent the Directors' and Management's best estimate of the expected losses within loan portfolios at the reporting date. Management calculates the ECL using statistical models for the retail and corporate advances. Due to the loans and advances to customers being material to the Bank and the subjective judgement involved in determining the expected credit losses, this is considered to be a key audit matter.

Modelled ECL provisions

The development and execution of the ECL models requires significant management judgement, including estimation of the probability of default (PD), and loss given default (LGD) model parameters.

Significant increases in credit risk (SICR) are assessed based on macroeconomic inputs and the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management.

Significant judgements, estimates and assumptions are applied by management to:

- Evaluate the valuation and recoverability of collateral
- Estimate the timing of the future cash flows.

In addition to the above, judgement is also applied to determine whether any out of model adjustments are required for credit risk elements which are not captured by the models.

Refer to accounting policy Note 4(c), Note 5(a) on credit risk, Note 9 on loans and advances to customers and Note 31 on net impairment losses on financial instruments.

</td><td>

Our procedures included the following:

- We evaluated the design and implementation and tested the operating effectiveness of controls relating to credit origination, and stage calculation of arrears and days past due.
- With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9: Financial Instruments.
- We evaluated the design and implementation of key controls over the governance processes implemented for credit models and inputs into the ECL models and how the Directors ensure they have appropriate oversight of the ECL.
- We assessed and challenged the Directors and Management on the data inputs and key assumptions into the ECL models, which includes the evaluation of SICR, estimated macroeconomic inputs, stage classification of exposures and the estimated probability of default, and loss given default.
- We assessed the collateral valuation procedures and inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral.
- We evaluated the appropriateness of management's additional out of model adjustments by assessing the reasonability of the assumptions and judgements made by management.
- We evaluated the adequacy of the financial statement disclosures including key assumptions and judgements.

In conclusion, we determined that the impairment of loans and advances to customers is not materially misstated and the related disclosures are appropriate.

</td></tr>
</table>

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Responsibility Statement, Statement on Corporate Governance and Directors' Report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Deloitte & Touche
Certified Auditors

Gaborone
10 May 2022

Practicing Member: P Naik (CAP 007 2022)

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2021

		SEPARATE	
Amounts in Pula	Note	2021	2020
ASSETS			
Cash and cash equivalents	6	**1 223 765 387**	1 107 851 433
Investment securities	7	**251 990 912**	297 312 388
Repurchase agreements	8	**689 803 566**	285 516 472
Investments in subsidiary companies	42	**30 000**	200
Loans and advances to customers	9	**2 884 406 349**	2 123 331 409
Other assets	10	**47 309 534**	18 920 654
Property, equipment and intangible assets	11	**71 998 743**	75 908 355
Right-of-use assets	12	**1 511 331**	4 417 671
Current tax assets		**4 354 752**	3 667 153
Total assets		**5 175 170 574**	3 916 925 735
LIABILITIES			
Deposits from customers	13	**3 713 004 433**	3 038 484 162
Balances due to other banks	14	**769 682 463**	276 985 036
Lease liabilities	15	**2 479 674**	5 272 017
Other liabilities	16	**56 973 191**	34 047 182
Deferred tax liabilities	17	**7 992 467**	5 359 964
Subordinated debt	18	**188 143 561**	188 015 230
Preference shares	19	**26 132 000**	26 132 000
Total liabilities		**4 764 407 789**	3 574 295 591
EQUITY			
Stated capital	20	**140 000 000**	140 000 000
Property revaluation reserve	11	**3 006 111**	3 006 111
Credit loss reserve	21	**15 289 391**	15 289 391
Retained earnings		**252 467 283**	184 334 642
Total equity		**410 762 785**	342 630 144
Total liabilities and equity		**5 175 170 574**	3 916 925 735

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021

		SEPARATE	
Amounts in Pula	Note	2021	2020
Interest income	22	**362 862 465**	301 646 566
Interest expense	23	**(110 621 867)**	(99 261 153)
Net interest income		**252 240 598**	202 385 413
Fees and commission income*	24	**18 666 418**	18 482 258
Gain on foreign exchange transactions	25	**40 557 005**	44 664 811
Other operating income*	26	**702 890**	59 240
Non-interest income		**59 926 313**	63 206 309
Total operating income		**312 166 911**	265 591 722
Staff costs	27	**(74 586 956)**	(63 189 084)
Premises and equipment costs*	28	**(3 609 110)**	(4 915 635)
Information technology costs*	29	**(8 740 272)**	(8 218 338)
Depreciation and amortisation	11&12	**(10 648 709)**	(14 229 541)
Administration and general expenses*	30	**(32 221 660)**	(33 253 139)
Shared services costs*		**(18 067 563)**	(16 512 796)
Total operating expenses		**(147 874 270)**	(140 318 533)
Profit before impairment losses on financial assets		**164 292 641**	125 273 189
Net impairment losses on financial assets	31	**(28 385 565)**	(33 276 992)
Profit before income tax expense		**135 907 076**	91 996 197
Income tax expense	32	**(32 912 201)**	(22 271 727)
Profit for the year		**102 994 875**	69 724 470
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation surplus on fixed assets		**–**	3 683 182
Deferred tax on revaluation of property		**–**	(810 300)
Total other comprehensive income for the year		**–**	2 872 882
Total comprehensive income for the year		**102 994 875**	72 597 352
Basic earnings per share in Pula	33	**1.0114**	0.6847

* *Details related to prior year reclassification are disclosed in note 39.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	SEPARATE				
Amounts in Pula	Stated capital	Property revaluation reserve	Credit loss reserve	Retained earnings	Total equity
Balance at 1 January 2020	140 000 000	133 229	27 283 602	126 615 961	294 032 792
Profit for the year	–	–	–	69 724 470	69 724 470
Other comprehensive income					
Revaluation surplus on properties, net of deferred tax	–	2 872 882	–	–	2 872 882
Transactions with owners of the Bank					
Dividend paid	–	–	–	(24 000 000)	(24 000 000)
Transactions with owners of the Bank					
Transfer to loan loss reserve	–	–	(11 994 211)	11 994 211	–
Balance at 31 December 2020	**140 000 000**	**3 006 111**	**15 289 391**	**184 334 642**	**342 630 144**
Profit for the year	**–**	**–**	**–**	**102 994 875**	**102 994 875**
Transactions with owners of the Bank					
Dividend paid	**–**	**–**	**–**	**(34 862 234)**	**(34 862 234)**
Transactions with owners of the Bank					
Transfer from loan loss reserve	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2021	**140 000 000**	**3 006 111**	**15 289 391**	**252 467 283**	**410 762 785**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

		SEPARATE	
Amounts in Pula	Note	2021	Restated* 2020
Cash flows from operating activities			
Interest and fee income received	34	**424 002 559**	361 402 624
Interest paid	35	**(105 002 583)**	(90 081 157)
Cash paid to suppliers and employees	36	**(180 702 256)**	(134 064 299)
Income taxes paid		**(30 965 210)**	(18 874 037)
		107 332 510	118 383 131
Net movement in loan balances	37	**(786 274 398)**	(175 152 016)
Net movement in deposit balances	37	**669 521 772**	467 531 940
Purchases of repurchase agreement*	45	**(404 284 094)**	(126 618 167)
Balances due to other banks	45	**492 697 427**	(245 409 418)
Net cash (used by)/generated from operating activities		**78 990 213**	38 735 470
Cash flows from investing activities			
Purchases of money market investments		**45 321 476**	142 585 668
Subscription of shares in subsidiary company		**(29 900)**	–
Acquisition of property and equipment and intangibles	11	**(4 219 730)**	(1 580 104)
Proceeds from sale of equipment		**–**	54 571
Net cash (used by)/generated from investing activities		**41 071 846**	141 060 135
Cash flows from financing activities			
Proceeds from issue of subordinated debt	18	**–**	5 000 000
Dividends paid		**(34 862 234)**	(24 000 000)
Repayment of finance lease liability		**(2 038 893)**	(3 256 198)
Interest on lease liability		**(401 297)**	(459 882)
Net cash generated from/(used in) financing activities		**(37 302 424)**	(22 716 080)
Net increase in cash and cash equivalents		**82 759 639**	157 079 525
Cash and cash equivalents at beginning of the year		**1 107 851 433**	936 746 906
Effect of changes in exchange rate		**33 154 315**	14 025 002
Cash and cash equivalents at end of the year	6	**1 223 765 387**	1 107 851 433

* *The statement of cash flows has been restated to correct a prior period error (refer to note 44).*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1 Reporting entity

First Capital Bank Limited (FCB or the Bank) is a limited liability public company incorporated in Botswana. The Bank is licensed to operate as a commercial bank and is regulated by the Bank of Botswana. The Bank is subject to the Banking Act, (CAP 46:04). The Bank's registered address is Plot 50370, Acumen Park, Fairgrounds, Gaborone. These financial statements represent the Bank's statutory financial statements.

2 Basis of preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(ii) Basis of measurement

The financial statements are prepared on the historical cost basis except where otherwise stated. The financial statements have been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

(iii) Functional and presentation currency

The financial statements are presented in Botswana Pula, which is the Bank's functional and presentation currency. Financial information has been rounded to the nearest Pula.

(iv) Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following estimates and underlying assumptions are significant to the Bank:

- **Expected credit losses relating to financial assets** – refer note 4(c).
- **Revaluation of property** – refer to note 11.
- **Residual values and useful lives of property and equipment** – The Bank depreciates its property and equipment on a straight-line basis by allocating the depreciable amount (original cost less estimated residual value) equally over its estimated useful life. Residual values are estimated by considering the disposal values of similar assets if they were in the condition expected at the end of the asset's life, at the reporting date. Useful lives are also reviewed annually and are adjusted when it is evident that the economic benefits initially anticipated will not flow from the asset over the same duration or to the same extent.

(v) Going concern basis of accounting

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will be able to realise its assets and settle its obligations in the ordinary course of its business.

3 New standards and interpretations

3.1 New standards and interpretations which became effective during the year

The following standards, amendments to standards and interpretations became effective for the year ended 31 December 2021:

Standard/interpretation		Impact
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.	No impact on these financial statements as there were no COVID-19 concessions granted to the Bank.
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.	No impact on these financial statements as the Bank does not enter into hedging relationships.

3.2 New standards and interpretations not yet effective

The following new standards, amendments and interpretations have been issued but are not effective for the financial year ended 31 December 2021.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

A one-year extension to the practical expedient for COVID-19 related rent concessions under IFRS 16 *Leases* has been published by the International Accounting Standards Board (the IASB). COVID-19-Related Rent Concessions beyond 30 June 2021 (the 2021 amendment) is a response to the ongoing economic challenges resulting from the COVID-19 coronavirus pandemic. The extension is available for adoption immediately, subject to any local endorsement requirements.

The standard is effective for annual periods beginning of after 1 April 2021. The standard is not expected to have any impact on the Bank's financial statements.

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, issued by the IASB, clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both:

- The incremental costs – e.g., direct labour and materials; and
- An allocation of other direct costs – e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The standard is effective for annual periods beginning of after 1 January 2022. The standard is not expected to have any impact on the Bank's financial statements as it does not have onerous contracts.

3 *NEW STANDARDS AND INTERPRETATIONS (continued)*

3.2 *New standards and interpretations not yet effective (continued)*

Annual Improvements to IFRS Standards 2018 – 2020

The below amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted and are not expected to have any impact on the Bank's financial statements:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*	The amendment permits a subsidiary (as a first-time adopter of IFRS that applies IFRS later than its parent) that applies IFRS 1.D16(a) to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
IFRS 9 *Financial Instruments*	The amendment clarifies that for the purpose of performing the "10 per cent test" for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
IFRS 16 *Leases*	The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
IAS 41 *Agriculture*	The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 *Fair Value Measurement*.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The standard is effective for annual periods beginning of after 1 January 2022. Property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments will be affected.

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendment has:

- Updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- Added to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- Added to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The standard is effective for annual periods beginning of after 1 January 2022. The standard is not expected to have any impact on the Bank's financial statements.

3 *NEW STANDARDS AND INTERPRETATIONS (continued)*

3.2 *New standards and interpretations not yet effective (continued)*

IFRS 17 *Insurance Contracts*

IFRS 17 supersedes IFRS 4 *Insurance Contracts* and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on the entity's financial statements.

The standard is effective for annual periods beginning of after 1 January 2023. The standard is not expected to have any impact on the Bank's financial statements.

Classification of liabilities as current or non-current (Amendments to IAS 1)

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

The amendment is affective 1 January 2023. The amendment is expected to have no impact on the Bank's financial statements.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The effective date has been deferred indefinitely; it is however not expected to have a significant impact on the Bank's financial statements.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendment seeks to provide clarity on the definition of material to make it easier to understand and apply. This definition is now aligned across IFRS Standards and the Conceptual Framework.

The amendment is affective 1 January 2023. The amendment is expected to have no impact on the Bank's financial statements.

Definition of Accounting Estimate (Amendments to IAS 8)

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendment is affective 1 January 2023. The amendment is expected to have no impact on the Bank's financial statements.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (amendments to IAS 12 *Income Taxes*)

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

3 *NEW STANDARDS AND INTERPRETATIONS (continued)*

3.2 *New standards and interpretations not yet effective (continued)*

The Bank will need to reflect on the future tax impacts of these transactions and recognise deferred tax. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date.

The amendment is affective 1 January 2023.

4 Significant accounting policies

(a) The accounting policies applied by the Bank are consistent with those used in the previous year, except as explained in note 3.1.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to Botswana Pula at the foreign exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Botswana Pula at the foreign exchange rate (mid-rate) ruling at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Botswana Pula at foreign exchange rates ruling at the dates the fair values were determined.

(c) Financial assets and liabilities

The Bank initially recognises loans, debt securities issued and subordinated receivables on the date on which they are originated. All other financial assets or financial liabilities are recognised on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not classified at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the consideration received (including any new accounts obtained less any new liability assumed) is recognised in profit or loss.

Subsequent to initial recognition, a financial asset is measured at:

(i) Amortised cost;

(ii) Fair value through other comprehensive income (FVOCI) – debt investments;

(iii) FVOCI – equity investments; or

(iv) Fair value through profit and loss (FVTPL).

Classification of financial instruments

On initial recognition, a financial asset is classified as measured at:

(i) Amortised cost;

(ii) FVOCI – debt investments;

(iii) FVOCI – equity investments; or

(iv) FVTPL

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The business models are explained as follows:

i) Hold to collect contractual cash flow – Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) *Financial assets and liabilities (continued)*

Classification of financial instruments (continued)

ii) Hold to collect contractual cash flow and selling (FVOCI)

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii) Other business model – equity investments (FVOCI)

On initial recognition of an equity investment not held for trading, the Bank irrevocably elects to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

iv) Hold to sell (FVTPL)

- All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets and debt instruments held for trading;
- A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition for financial assets and liabilities not at FVTPL. Transaction costs for financial assets and liabilities measured at FVTPL are expensed in profit and loss

Impairment of financial assets

The Bank classifies and measures their financial instruments at amortised cost, except investments in equity instruments. The financial assets at amortised cost consist of loans and advances, cash and cash equivalents and debt securities.

The Bank assesses the expected credit losses (ECL) associated with its debt instrument assets, loans and advances measured at amortised cost and FVOCI and with the exposure arising from loan commitments, bank balances and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date.

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- Stage 1 – Financial instruments not credit impaired on initial recognition and are performing;
- Stage 2 – If significant increase in credit risk is identified the asset is moved to Stage 2;
- Stage 3 – If the asset is credit impaired it is moved to Stage 3.

Expected credit losses measurement

- ECLs are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk (SICR) has occurred since initial recognition or whether the asset is considered credit impaired. ECLs are a probability-weighted discounted product of probability of default (PD), loss given default (LGD) and exposure at default (EAD).
- Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
- ECLs are discounted at the effective interest rate of the portfolio.
- The maximum period considered when estimating ECLs is the maximum contractual period (including extensions) over which the Bank is exposed to credit risk.
- The Bank uses a combination of a portfolio-based approach and individual assessment to the calculation of ECLs.
- Portfolio assessment is performed by way of the IFRS 9 model (ECL model) to support the modelling of PD, LGD and EAD.
- Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) *Financial assets and liabilities (continued)*

Expected credit losses measurement (continued)

Loss allowances are measured on either of the following bases:

i) 12-month ECLs (Stage 1 – no significant increase in credit risk)

These are a portion of lifetime ECLs that result from possible default events within the 12 months after the reporting date. These ECLs are measured on assets which are performing assets.

- Customer loans and advances which do not reflect any SICR since initial recognition.
- Debt securities, loans to banks and bank balances which are performing assets.

ii) Lifetime ECLs (Stage 2 – significant increase in credit risk)

These are ECLs that result from all possible default events over the expected life of a financial instrument. These ECLs are measured on assets with a SICR since initial recognition.

- Customer loans and advances with regulatory asset classification of Special Mention (Rebuttable presumption basis of 30 to 89 days past due) or with a SICR (as demonstrated in terms of the Bank's early warning risk monitoring process).
- Debt securities, loans to banks and bank balances which are past due.

iii) Lifetime ECLs (Stage 3 – default)

These ECLs are measured on all credit impaired/in default credit exposures.

- Customer loans and advances with regulatory asset classification Substandard, Doubtful, Loss (Rebuttable presumption basis of more than 89 days past due) or with a SICR (as demonstrated in terms of the Bank's early warning risk monitoring process) justifying credit impairment.
- Debt securities, loans to banks, bank balances in default.

Note 5 (a) below provides more detail of how the ECL allowance is measured.

For Stage 3 assets, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, representing the unwinding of the discount of the expected cash flows, including the principal due on non-accrual loans.

Uncollectable loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Customer portfolios are segmented into Retail and Corporate, short- and long-term tenure (segregated by local and foreign currency) and further non-funded/off-balance sheet products. The retail loans and corporate loans per the Bank's core banking system, Finacle, are segregated in the ECL model. Retail loans not in Finacle are also segregated in the ECL model.

Benchmarking ECL

Portfolio assessment is performed by way of a collective assessment semi-empirical ECL model developed in consultation with external consultants supported by available historic information to support the modelling of PD, LGD and EAD. Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

The Bank elected to use a country rating by sovereign debt approach, which forms the basis of calculating the PDs of some financials assets within scope of IFRS 9 guidelines. The sovereign debt PD is adjusted by individual corporate PD rates based on external rating provider Standard & Poor's (S&P) information.

Low risk financial instruments

ECL for low-risk financial instrument exposures is based on benchmarked PDs and LGDs due to lack of historical data.

LGDs of individually assessed customer loans and advances, have been determined in terms of:

- Stages 1 and 2: An internal benchmark applied to a net exposure after application of future realisable cash flows, predominantly collateral held.
- Stage 3: Net exposure after application of future realisable cash flows, predominantly collateral held.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) *Financial assets and liabilities (continued)*

LGDs on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:

- Basel II & III Guidelines: The treatment of sovereign exposures in the banking book.
- Basel II Guidelines: Applied under foundation Internal Ratings Based Approach (IRB) and observed in the Committee's study on Banks.
- Internal benchmark based on historical recoverability.

EAD is determined as below:

- For customer loans and advances: Outstanding exposures plus undrawn limits.
- For other financial assets/low risk financial instruments: Outstanding exposures.

Restructures/modification of loans and advances

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans and advances to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

i) Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

ii) Significant extension of the loan term when the borrower is not in financial difficulty.

iii) Significant change in the interest rate.

iv) Change in the currency the loan is denominated in.

A loan under credit distress is considered to have been restructured if the Bank agrees to terms which the Bank would not otherwise have agreed to in an attempt to offer financial relief and rehabilitation to the borrower.

The Bank's policy is that any restructure of an account, even if not yet in Stage 3, where the obligor has not settled all arrears prior to the restructure, shall have the effect that the account shall be/continue to be classified as Stage 3 until a minimum applicable curing period provides confirmation that the account may be reclassified to Stage 2 in which a further minimum curing period shall apply prior to reclassification to Stage 1.

Restructured accounts are flagged and provided for at Stage 3 for at least a minimum period post restructure date subject to local regulations.

If there is a restructure, which does not result in a derecognition (write off of the asset/creation of a new account), then the Bank considers whether there is a modification gain or loss. The Bank considers the new restructured cash flow and discounts this back using the original effective interest rate and if that gives a higher carrying value than the Bank currently holds, the Bank will reflect this as a gain or if it gives a lower carrying value then as a loss.

The Bank will write off the difference between the previous and the restructured carrying amount in the event of a lower carrying amount for the restructured credit facility.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) *Financial assets and liabilities (continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial instruments

Full de-recognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Bank transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Bank may retain an interest in it (continuing involvement) requiring the Bank to repurchase it in certain circumstances for other than its fair value on that date.

The Bank de-recognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

On write-offs, the Bank's policy provides that an asset should be written off if there is no near-term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued but write-off of an account shall also not be unduly delayed. An asset shall not be written of earlier than:

- Unsecured – 6 months after default.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions within the Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method applied to the difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, later than when the valuation is wholly supported by observable market data, or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The table on the following page sets out carrying amounts and fair value of the Bank's financial assets and financial liabilities.

In the opinion of directors, the fair values of the Bank's financial assets and liabilities approximate the respective carrying amount, due to the generally short period of most of the contractual repricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based on the borrowing rate that the directors expect would be available to the Bank at the reporting date.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(c) *Financial assets and liabilities (continued)*

Fair value measurement (continued)

		SEPARATE		
Amounts in Pula	Note	At amortised cost	Total carrying amount	Fair value
2021				
Financial assets				
Cash and cash equivalents	6	1 223 765 387	1 223 765 387	1 223 765 387
Investment securities	7	251 990 912	251 990 912	251 990 912
Repurchase agreements	8	689 803 566	689 803 566	689 803 566
Loans and advances to customers	9	2 884 406 349	2 884 406 349	2 884 406 349
Other assets	10	36 220 535	36 220 535	36 220 535
		5 086 186 749	5 086 186 749	5 086 186 749
Financial liabilities				
Deposits from customers	13	3 713 004 433	3 713 004 433	3 713 004 433
Balances due to other banks	14	769 682 463	769 682 463	769 682 463
Lease liabilities	15	2 479 674	2 479 674	2 479 674
Other liabilities	16	39 770 623	39 770 623	39 770 623
Subordinated debt	18	188 143 561	188 143 561	188 143 561
Preference shares	19	26 132 000	26 132 000	26 132 000
		4 739 212 754	4 739 212 754	4 739 212 754

		SEPARATE		
Amounts in Pula	Note	At amortised cost	Total carrying amount	Fair value
2020				
Financial assets				
Cash and cash equivalents	6	1 107 851 433	1 107 851 433	1 107 851 433
Investment securities	7	297 312 388	297 312 388	297 312 388
Repurchase agreements	8	285 516 472	285 516 472	285 516 472
Loans and advances to customers	9	2 123 331 409	2 123 331 409	2 123 331 409
Other assets	10	9 050 401	9 050 401	9 050 401
		3 823 062 103	3 823 062 103	3 823 062 103
Financial liabilities				
Deposits from customers	13	3 038 484 162	3 038 484 162	3 038 484 162
Balances due to other banks	14	276 985 036	276 985 036	276 985 036
Lease liabilities	15	5 272 017	5 272 017	5 272 017
Other liabilities	16	19 160 085	19 160 085	19 160 085
Subordinated debt	18	188 015 230	188 015 230	188 015 230
Preference shares	19	26 132 000	26 132 000	26 132 000
		3 554 048 530	3 554 048 530	3 554 048 530

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash (with original maturities of three months or less) and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost less ECLs in the statement of financial position.

(e) Other assets

Other assets, initially measured at fair value, are subsequently measured at amortised cost using the effective interest method less impairment losses.

Other assets comprise EFT retail accounts, deferred commission expenses, interest accrued on bonds, collections accounts, prepayments and staff advances.

(f) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repurchase agreement (repo) or stock borrowing), the arrangement is accounted for as a borrowing from or a loan to the other party.

Loans and advances are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method, less ECLs.

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method, less ECLs. Investment securities comprise fixed deposits with banks.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are initially recognised at cost and are subsequently measured at cost less accumulated depreciation and impairment losses except for freehold property and leasehold improvements which are measured at revalued amount less accumulated depreciation and impairment losses.

Cost includes borrowing costs of qualifying assets and expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Derecognition

The carrying amount of an item of property and equipment shall be de-recognised:

(a) On disposal; or

(b) When no future economic benefits are expected from its use or disposal.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net in other income in profit or loss.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in profit or loss as incurred.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(h) *Property and equipment (continued)*

(iv) Depreciation

Property and equipment items are depreciated on the straight-line basis at rates that would reduce book amounts to residual values, estimated at purchase except for freehold property and leasehold improvements which are measured at revalued amount less accumulated depreciation and impairment losses. The Bank re-assesses both the useful lives and the residual values of the assets at each reporting date. Any changes in either useful lives or estimated residual values are accounted for prospectively as a change in accounting estimate.

Depreciation is recognised in profit or loss.

The depreciation rates per annum are as follows:

	%
Motor vehicles	20.00
Furniture and fittings and computer hardware	20.00
Computer software (intangible asset)	16.67
Freehold properties	2.50

(v) Revaluation

Freehold properties and leasehold improvements are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value. Revaluation takes place every two years. Revaluation surpluses are recognised in other comprehensive income and accumulated in equity in a non-distributable property revaluation reserve. A revaluation surplus will be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

When the freehold property is revalued, the carrying amount of the asset is adjusted to the revalued amount. At the date of the revaluation, the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The revaluation surplus included in equity in respect of property and equipment is transferred directly to retained earnings when the asset is sold or disposed.

(vi) Capital work in progress

Capital work in progress represents gross amounts spent to date in carrying out work of a capital nature. Capital work in progress is measured at cost recognised to date, less impairment.

Capital work in progress is presented as part of property and equipment in the statement of financial position. When the project is completed, the expenditure is capitalised and transferred to the relevant items of property and equipment. Capital work in progress is not depreciated until such time the expenditure is capitalised and the asset is ready for its intended use.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups of assets. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the units on a pro rata basis.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(i) *Impairment of non-financial assets (continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

An impairment loss and related reversals are recognised in profit or loss unless it concerns property measured at revalued amount in which case it is treated as a revaluation decrease. If the impairment loss exceeds the revaluation reserve in respect of the impaired asset, the excess is recognised in profit or loss. A reversal of an impairment loss is recognised in profit or loss, unless it relates to property measured at revalued amounts, in which case the excess of the reversal over the amount recognised in profit or loss is treated as a revaluation increase.

(j) Deposits and subordinated liabilities

Deposits and subordinated liabilities to customers and other banks are the Bank's principal sources of funding. When the Bank sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at FVTPL.

(k) Stated capital

Ordinary shares are of no par value and are classified as stated capital.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Dividends on ordinary shares are recognised in equity in the period in which they were declared and paid.

(l) Credit loss reserve

In order to comply with asset classification directives by Bank of Botswana, the Bank recognises a credit loss reserve in addition to impairment recognised in accordance with IFRS.

The reserve is calculated based on a regulatory threshold, which is limited to a maximum of 1.25% of credit risk-weighted assets. The credit loss reserve is held for future, presently unidentified losses and is recognised in equity.

(m) Preference shares

Preference shares are classified as financial liabilities in accordance with the substance of the contractual terms of the instruments. The Bank's preference shares are redeemable at the option of the Bank but not within five years from issuance and bear non-discretionary coupons that are cumulative.

(n) Other liabilities

Other liabilities are initially measured at fair value less incremental direct transactions costs and subsequently measured at amortised cost, using the effective interest method except where the Bank designates liabilities are fair value through profit or loss.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Other long-term employee benefits

Employees on contract receive gratuities in accordance with their contracts of employment. An accrual is recognised for the estimated liability towards such employees for services rendered up to expiration of the employment contract.

(iii) Short-term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

(p) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis.

(q) Leases

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as office equipment). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(q) *Leases (continued)*

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has used this practical expedient.

The Bank as lessor

Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(r) Fee and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

The Bank applies IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 contains a single model that establishes a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract; and

Step 5: Recognise revenue when (or as) the Bank satisfies a performance obligation.

The Bank recognises revenue when (or as) a performance obligation is transferred to the customer. Fees and commissions charged for services provided by the Bank are recognised as the services are provided, for example on completion of an underlying transaction.

(s) Trading income

Trading income comprises gains and losses relating to trading assets and liabilities and include realised and unrealised fair value changes and exchange differences.

(t) Other income

Other income includes charges on cash transactions, charges on unpaid cheques and internet banking charges. These charges are recognised as the related services are performed.

(u) Income tax expense

Income tax expense comprises current and deferred tax. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustments to the tax refundable or payable in respect of previous years, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- Temporary difference on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at reporting date.

(v) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

4 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(w) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

(x) Financial guarantees

The Bank issues financial guarantee contracts in return for fees. Under a financial guarantee contract, the Bank undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Financial guarantee contracts issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees issued at market rates are recorded off-balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

(y) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Bank, liabilities incurred by the acquiree and the equity interest issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Bank in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted, with corresponding adjustments against goodwill.

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Bank's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

(z) Repurchase agreements

A repurchase agreement (repo) is defined as a contract where parties have agreed on the sale of securities and the subsequent repurchase of corresponding assets at a predetermined price. In a repo, the sold security remains on the balance sheet, since the Bank is exposed to the risk that the security will fluctuate in value before the repo expires. The payment received is recognised as a financial liability on the balance sheet based on the respective counterparty.

5 Financial risk management

The Board of Directors of the Bank has ultimate responsibility for the level of risk taken by the Bank and accordingly they have approved the overall business strategies and significant policies of the Bank, including those related to managing and taking risk. Senior management in the Bank is responsible for implementing strategies in a manner that limits risks associated with each strategy and ensures compliance with rules and regulations, both on a long term and day to day basis. The Bank has a risk management department, which is independent of those who accept risks in the Bank.

The risk management department is tasked to:

- Identify current and emerging risks;
- Develop risk assessment and measurement systems;
- Establish policies, practices and other control mechanisms to manage risks;
- Develop risk tolerance limits for senior management and Board approval;
- Monitor positions against approved risk tolerance limits;
- Report results of risk monitoring to senior management and the Board.

To ensure that risk management is properly explained to and understood by all business units, the Board has established the following risk management policies:

- Credit Risk Management Policy;
- Liquidity Risk Management Policy;
- Operational Risk Management Policy;
- Capital Risk Management Policy;
- Market Risk Policy
  - Interest Rate Risk
  - Foreign Exchange Risk
- Compliance Risk Policy.

5 *FINANCIAL RISK MANAGEMENT (continued)*

(a) Credit risk

Credit risk is the risk of financial loss should the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. The Bank actively seeks to originate and manage credit risk in such a way as to achieve sustainable asset growth and risk adjusted returns in line with board-approved risk parameters. The credit risk that the Bank faces arises mainly from corporate loans and advances and counterparty credit risk arising from derivative contracts entered into with counterparties. Other sources of credit risk arise from treasury bills, government bonds, settlement balances with counterparties and bank balances with Central Bank and other related banks. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors have delegated responsibility for the management of credit risk to the Credit Committee. A separate credit department, reporting to the Credit Committee, is responsible for oversight of the credit risk, including:

- *Formulating credit policies*, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to Head of Credit, Chief Executive Officer and Management Credit Committee. Larger facilities require approval by the Head Office Management Credit Committee. The Board Credit Committee through Group Credit approves the related party and as well as PEP facilities that require Board approval as and when it is appropriate.
- *Reviewing and assessing credit risk*. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Reviewing compliance* of business units with specified exposure limits.

Credit risk management objectives are:

- Supporting the achievement of sustainable asset and revenue growth in line with the Bank's risk parameters.
- Operating sound credit granting processes and monitoring credit risk using appropriate models to assist decision making.
- Ensure credit risk taking is based on sound credit risk management principles and controls.
- Continually improving collection and recovery.

Risk limit and mitigation policies

The Bank uses a range of policies and practices to mitigate credit risk. These include credit scoring, marking limits against counter parties and monitoring cash flows and utilisation against limits, covenants and collateral.

Principal collateral types used for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as inventory and accounts receivable, moveable assets and guarantees; and
- Cash cover.

The Bank's legal and credit departments are responsible for conducting sufficient legal review to confirm that the approved collateral is legally effective. The ratio of value of loan to value of security is assessed on grant date and continuously monitored.

5 FINANCIAL RISK MANAGEMENT *(continued)*

(a) *Credit risk (continued)*

Credit risk grading

Customer loans and advances

Application

The Bank uses external ratings where available, from ratings agencies, or alternatively, an internal application credit risk scoring tool that reflects its assessment of the PD of individual counterparties. Borrower and loan and advances specific information collected at the time of application (such as borrower profile, business activity, financial position and performance, account conduct, facility type, tenor and collateral) is fed into this rating tool.

This is supplemented with external data such as credit bureau scoring information. The tool enables expert judgement to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Originators and underwriters will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the Bank officials also update information about the creditworthiness of the borrower every year from sources such as financial statements, bank statements, credit bureau information and market feedback. This will determine the updated internal credit rating.

Behavioural

Payment and other behavioural aspects of the borrower are monitored on an ongoing basis in conjunction with collateral values and event driven factors to develop an internal behavioural credit rating.

Exposures are monitored by grading customers in an early warning/ongoing monitoring list in order to identify those customers who are believed to be facing a SICR.

Customers are categorised into risk categories 0 – 3. Those in 0 and 1 display no or temporary business as usual situations and the risk of default is low. Category 2 implies there is greater doubt that the borrower will meet its obligations but the risk of default is medium. Category 3 implies that there are significant doubts that the customer will meets its obligations and the risk of default is high or has occurred.

These ratings are reflected on the following scale using excesses days past due as well as other criteria which are indicative of the severity of a SICR. These categories are in turn further sub-categorised in order to better measure any SICR. The Bank has mapped these sub-categories to the 22 rating categories employed by S&P with a view to using the corporate PDs published by S&P as a representation:

- Category 0 (sub categories 1 – 3c): 1 to 5 days past due
- Category 1 (sub categories 4a – 5c): 6 to 30 days past due
- Category 2 (sub categories 6a – 7c): 31 days to 90 days past due
- Category 3 (sub categories 8 – 10): 90 days+ past due (default)

Expected credit losses measurement

ECLs measurement is already outlined under financial assets and liabilities (please refer to page 49).

5 *FINANCIAL RISK MANAGEMENT (continued)*

(a) *Credit risk (continued)*

Probability of default (PD)

The PD is the likelihood of a borrower defaulting on its financial obligation (refer default section below for the definition of default), either over the next 12 months, or over the remaining lifetime (lifetime PD) of the obligation. PDs are modelled using historic data into 12-month PD and lifetime PDs. Where data is not available, proxies which resemble the risk of default characteristics of the exposure are used. The PDs are determined individually or below threshold at portfolio level (below internal thresholds for customer exposures) and segmented into various categories using tenure, currency, product or low risk classification.

PDs modelled using historical data may then be adjusted for forward-looking factors.

PDs are mapped into regulatory grades as follows:

(i) Customer loans and advances

Stage 1	12-month PD	Bank of Botswana classification Standard/internal Category 0 and 1
Stage 2	Lifetime PD	Bank of Botswana classification Special mention/internal Category 2
Stage 3	Default PD	Bank of Botswana classification, Substandard, Doubtful, Loss/internal Category 3

(ii) Low risk financial instruments

For debt securities in the treasury portfolio and interbank exposures, performance of the counterparty is monitored for any indication of default. PDs for such exposures are determined based on benchmarked sovereign ratings mapped to external credit rating agencies grade (S&P sovereign debt and corporate default grades). Where there are external credit ratings PDs are derived using those external credit ratings.

Exposure at default (EAD)

EAD is the amount the Bank expects to be owed at the time of default. For a customer revolving commitment, the EAD includes the current drawn balance plus any undrawn amount at the time of default, should it occur. For term loans EAD is the drawn balance. For low-risk financial instruments EAD is the current reporting date exposure.

EAD is determined as follows:

- For customer loans and advances: Outstanding exposures plus undrawn limits.
- For other financial assets/low risk financial instruments: Outstanding exposures.

Loss given default (LGD)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD1 is calculated on a discounted lifetime basis for accounts in Stages 1 and 2 where LGD is the percentage of loss expected to be made if the default occurs. LGD2 is individually determined or modelled based on historical data. LGD for low-risk financial instruments exposure is based on observed recovery rates and:

- Basel II & III Guidelines: The treatment of sovereign exposures in the banking book.
- Basel II Guidelines: Applied under foundation IRB and observed in the Committee's study on Banks.
- Internal benchmark based on historical recoverability.

LGDs of individually assessed customer loans and advances have been determined in terms of:

- Stages 1 and 2: An internal benchmark applied to a net exposure after application of future realisable cash flows, predominantly collateral held.
- Stage 3: Net exposure after application of future realisable cash flows, predominantly collateral held.

5 *FINANCIAL RISK MANAGEMENT (continued)*

(a) *Credit risk (continued)*

LGDs on various financial assets/low risk financial instruments, with the exception of customer loans and advances, have been determined in terms of:

- Basel II & III Guidelines: The treatment of sovereign exposures in the banking book.
- Basel II Guidelines: Applied under foundation IRB and observed in the Committee's study on Banks.
- Internal benchmark based on historical recoverability.

Significant increase in credit risk (SICR)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

The use of the rebuttable presumption of significant increase in risk means that an account is categorised as Stage 2 when the days past due are greater than 30 days and less than 90 days. In addition to the rebuttable presumption, the Bank also considers the output of its multi-factor early warning/risk monitoring analysis as a qualitative measure, which include but are not limited to:

Retail:

- Extension of credit terms;
- Retrenchment/dismissal/incapacitation of employee;
- Diversion of salary payments;
- Employer facing financial difficulties.

Corporate and low risk financial instruments:

- Significant adverse changes in regulatory, business, financial or economic conditions in which the borrower operates in;
- Actual or expected restructuring of debt;
- Early signs of cash flow/liquidity problems such as delay in servicing debt;
- Significant decline in account turnover;
- Breach or anticipation of breach of significant debt covenants;
- Significant changes in the value of the collateral supporting the facility;
- Significant change in the quality of the guarantee or financial support provided by the shareholder.

The assessment of SICR incorporates forward-looking information and is performed on a monthly basis at a portfolio level below internal threshold. Customer loans and advances exceeding internal thresholds and low risk financial instrument exposures are assessed on a monthly and quarterly basis by the credit department, Bank management and the Board Credit Committee.

Default

The Bank considers a financial asset to be in default when based on the rebuttable presumption a customer loan and/or advance is categorised as substandard/doubtful/loss on the central bank asset classification when the days past due are 90 days or more.

In addition to the rebuttable presumption, the Bank also considers the output of its multi-factor risk analysis using internal risk monitoring as a qualitative measure. Qualitative examples of a significant increase in risk include but are not limited to:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- The borrower commits an act of insolvency;
- The borrower's financial statements are qualified as to going concern; and
- The borrower or its executives commit an act of fraud.

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Forward-looking information incorporated in the ECL model

The Bank subscribes to a forward-looking view informed by the identification and use of economic factors which demonstrate a strong correlation with default experience. The ECL model allows the Bank to develop potential future scenarios, attach probabilities thereto and to incorporate this into the calculation of ECL.

However, in the absence of strongly correlating factors, allowance is also made for the use of management's expert view in a holistic manner; implemented by way of adjustment of the PD/LGD/EAD levers built into the ECL model for this purpose.

The Bank considered the composition of its customer loans and advances portfolio, limited number of defaults experienced and the unique causes of defaults in concluding that defaults did not strongly correlate to specific macroeconomic factors.

The Bank has thus developed an alternative methodology which allows the direct amendment of key ECL Model inputs, the probability of occurrence of these events, and their impact on the provision model outputs.

Write-offs

The Bank's policy provides that an asset should be written off if there is no near term realistic chance of recovery once collateral has been recovered. Recoveries are actively pursued, but write-off of an account are not unduly delayed. An asset is not written off earlier than:

- Unsecured asset – six months after default;
- Secured asset – 18 months after default.

However, final or earlier write-off shall remain at the discretion of management and the board.

ECL Model governance

The ECL Models used for PD, EAD and LGD calculations are governed on a day-to-day basis through the Management Credit Committee comprising of senior managers in credit, risk, finance, and the business units.

Decisions and key judgements made by the Committee relating to the impairments and model overrides will be submitted to Board Credit and Board Risk Committee as appropriate.

Exposure to credit risk

The Bank's expected credit losses on loans and advances are analysed and reconciled as follows:

Amounts in Pula	Consumer lending banking	Corporate and other banking	Total
2021			
Personal and term loans	**1 103 369 134**	**1 413 201 522**	**2 516 570 656**
Mortgage loans	**–**	**99 832 411**	**99 832 411**
Overdrafts	**–**	**349 657 040**	**349 657 040**
Gross loans and advances to customers	**1 103 369 134**	**1 862 690 973**	**2 966 060 107**
Reconciliation of ECL by exposure			
Balance at the beginning of the year	**(15 166 728)**	**(43 026 613)**	**(58 193 341)**
Charge to profit or loss	**(35 050 074)**	**8 826 405**	**(26 223 669)**
Net movement on interest in suspense	**14 816**	**(1 139 210)**	**(1 124 394)**
Recoveries	**(7 893 111)**	**(6 643 893)**	**(14 537 004)**
Write offs	**14 678 805**	**3 745 845**	**18 424 650**
Total impairment	**(43 416 292)**	**(38 237 466)**	**(81 653 758)**
Net loans and advances	**1 059 952 842**	**1 824 453 507**	**2 884 406 349**

5 *FINANCIAL RISK MANAGEMENT (continued)*

(a) *Credit risk (continued)*

Amounts in Pula	Consumer lending banking	Corporate and other banking	Total
2020			
Personal and term loans	714 475 190	1 057 195 107	1 771 670 297
Mortgage loans	–	103 259 115	103 259 115
Overdrafts	–	306 595 338	306 595 338
Gross loans and advances to customers	714 475 190	1 467 049 560	2 181 524 750
Reconciliation of ECL by exposure			
Balance at the beginning of the year	(9 632 268)	(30 344 128)	(39 976 396)
Charge to profit or loss	(10 424 511)	(23 058 963)	(33 483 474)
Net movement on interest in suspense	(22 934)	(30 608)	(53 542)
Recoveries	(1 317 730)	(1 391 080)	(2 708 810)
Write offs	6 230 715	11 798 166	18 028 881
Total impairment	(15 166 728)	(43 026 613)	(58 193 341)
Net loans and advances	699 308 462	1 424 022 947	2 123 331 409

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is summarised as follows:

Economic sector risk concentrations within the customer loan portfolio:

Amounts in Pula	2021	%	2020	%
Trade and services	**269 344 033**	**9.09**	286 844 984	13.15
Energy and minerals	**25 749 087**	**0.87**	52 022 443	2.38
Agriculture	**24 626 041**	**0.83**	13 483 801	0.62
Construction and property	**171 548 220**	**5.78**	62 776 573	2.88
Light, heavy industry and water	**13 643 327**	**0.46**	12 698 067	0.58
Consumer lending	**1 103 369 134**	**37.20**	714 475 190	32.75
Other households	**155 575 540**	**5.25**	174 654 993	8.00
Transport and distribution	**23 019 930**	**0.78**	11 501 917	0.53
Financial services	**84 362 075**	**2.84**	63 696 893	2.92
Commercial real estate	**466 527 173**	**15.73**	288 318 565	13.21
Tourism and hotels	**2 386 369**	**0.08**	4 513 056	0.21
Manufacturing	**65 582 789**	**2.21**	48 595 099	2.23
Business services	**112 750 441**	**3.80**	66 267 971	3.04
Other non-financial corporations (non-resident)	**117 252 150**	**3.95**	75 603 145	3.47
Other	**330 323 798**	**11.13**	306 072 053	14.03
	2 966 060 107	**100.00**	2 181 524 750	100.00

In the current year interest recognition on Stage 3 non-performing loans (NPL) with net recoverable amounts form part of impairment provisions in the Statement of Financial Position. Prior year comparatives have been reclassified accordingly.

5 *FINANCIAL RISK MANAGEMENT (continued)*
(a) *Credit risk (continued)*
Exposure to credit risk (continued)

Credit quality per class of financial assets before credit enhancement

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of financial asset for credit risk related items, based on the Bank's credit rating system.

Amounts in Pula	Loans and advances to customers	Guarantees and letters of credit provided	Undrawn loan commitments	Repurchase agreements	Investment securities	Bank balances	Other assets	Total
2021								
Reconciliation of ECL by exposure								
Stage 1	**2 620 740 584**	**227 838 042**	**114 675 706**	**689 803 566**	**252 011 612**	**1 224 007 975**	**36 220 535**	**5 165 298 020**
Stage 2	**246 229 131**	**7 020 000**	**–**	**–**	**–**	**–**	**–**	**253 249 131**
Stage 3	**99 090 392**	**300 000**	**–**	**–**	**–**	**–**	**–**	**99 390 392**
Gross exposure	**2 966 060 107**	**235 158 042**	**114 675 706**	**689 803 566**	**252 011 612**	**1 224 007 975**	**36 220 535**	**5 517 937 543**
Contribution by stage								
Stage 1 – 12 months ECL	**(31 381 304)**	**(3 705 738)**	**–**	**–**	**(20 700)**	**(242 588)**	**–**	**(35 350 330)**
Stage 2 – Lifetime ECL not credit impaired	**(18 166 562)**	**(20 796)**	**–**	**–**	**–**	**–**	**–**	**(18 187 358)**
Stage 3 – Lifetime ECL credit impaired	**(32 105 892)**	**(95 000)**	**–**	**–**	**–**	**–**	**–**	**(32 200 892)**
Total impairment	**(81 653 758)**	**(3 821 534)**	**–**	**–**	**(20 700)**	**(242 588)**	**–**	**(85 738 580)**
Net amount	**2 884 406 349**	**231 336 508**	**114 675 706**	**689 803 566**	**251 990 912**	**1 223 765 387**	**36 220 535**	**5 432 198 963**

Credit quality per class of financial assets

Bank's credit rating system.

Amounts in Pula	Loans and advances to customers	Guarantees and letters of credit provided	Undrawn loan commitments	Repurchase agreements	Investment securities	Bank balances	Other assets	Total
2020								
Reconciliation of ECL by exposure								
Stage 1	1 834 024 491	217 559 665	313 436 463	285 516 472	297 377 270	1 108 228 302	9 050 401	4 065 193 064
Stage 2	273 271 171	–	–	–	–	–	–	273 271 171
Stage 3	74 229 088	–	–	–	–	–	–	74 229 088
Gross exposure	2 181 524 750	217 559 665	313 436 463	285 516 472	297 377 270	1 108 228 302	9 050 401	4 412 693 323
Contribution by stage								
Stage 1 – 12 months ECL	(16 152 611)	(155 136)	–	–	(64 882)	(376 869)	–	(16 749 498)
Stage 2 – Lifetime ECL not credit impaired	(10 294 723)	–	–	–	–	–	–	(10 294 723)
Stage 3 – Lifetime ECL credit impaired	(31 746 007)	–	–	–	–	–	–	(31 746 007)
Total impairment	(58 193 341)	(155 136)	–	–	(64 882)	(376 869)	–	(58 790 228)
Net amount	2 123 331 409	217 404 529	313 436 463	285 516 472	297 312 388	1 107 851 433	9 050 401	4 353 903 095

5 *FINANCIAL RISK MANAGEMENT (continued)*

(a) *Credit risk (continued)*

Exposure to credit risk (continued)

Description of collateral held as security and other credit enhancements, in respect of the above

The Bank holds mortgages over property, registered securities and guarantees as collateral within the following classes:

Amounts in Pula	2021	2020
Personal and Business Banking		
– Other loans and advances	**120 753 010**	109 957 393
Corporate and Investment Banking		
– Corporate lending	**2 845 307 097**	1 908 730 167
	2 966 060 107	2 018 687 560

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding balances. In general, the Bank does not occupy repossessed properties for business use.

The Bank held cash collateral of P291 227 826 (2020: P387 242 081) against loans and advances to customers.

5 *FINANCIAL RISK MANAGEMENT (continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without causing damage to the Bank's reputation.

The daily liquidity position is monitored and regular stress testing is performed under normal and severe market conditions. However, it is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and unrecognised loan/overdraft commitments are not expected to be immediately drawn down in their entirety.

The Bank is required to maintain a cash reserve requirement ratio as defined by the Bank of Botswana, calculated on a monthly basis, of not less than 2.5% in 2021 (2020: 2.5%) of the preceding months total local currency deposit.

All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee (ALCO). This is a management committee which meets once a month or more often if necessary. The daily monitoring of liquidity is the responsibility of the treasury department which monitors the level of mismatches in the maturity positions of assets and liabilities. The maturity gap analyses as at the reporting date is summarised on the following pages.

5 *FINANCIAL RISK MANAGEMENT (continued)*
(b) *Liquidity risk (continued)*

Maturity gap analysis

Amounts in Pula	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Gross nominal inflow/ (outflow)
2021								
ASSETS								
Cash and cash equivalents	**1 223 765 387**	1 194 220 684	29 544 703	–	–	–	–	**1 223 765 387**
Investment securities	**251 990 912**	–	–	23 509 147	153 468 663	–	75 013 102	**251 990 912**
Repurchase agreements	**689 803 566**	571 775 631	–	–	118 027 935	–	–	**689 803 566**
Loans and advances to customers (gross)	**2 966 060 107**	359 378 998	36 203 701	8 058 418	45 719 002	1 368 940 892	1 147 759 096	**2 966 060 107**
Other assets	**36 220 535**	36 220 535	–	–	–	–	–	**36 220 535**
Total assets	**5 167 840 507**	**2 161 595 848**	**65 748 404**	**31 567 565**	**317 215 600**	**1 368 940 892**	**1 222 772 198**	**5 167 840 507**
LIABILITIES								
Deposits from customers	**(3 713 004 433)**	(1 885 937 516)	(335 316 319)	(243 641 424)	(10 941 902)	(1 122 582 701)	(114 584 571)	**(3 713 004 433)**
Borrowings	**(769 682 463)**	(652 536 534)	–	–	(117 145 929)	–	–	**(769 682 463)**
Subordinated debt	**(265 893 143)**	(31 147 675)	(1 728 933)	(2 690 440)	(6 942 408)	(53 090 432)	(170 293 255)	**(265 893 143)**
Preference shares	**(26 132 000)**	–	–	–	–	(26 132 000)	–	**(26 132 000)**
Lease liabilities	**(2 984 217)**	(235 933)	(412 932)	(479 127)	(438 055)	(1 418 170)	–	**(2 984 470)**
Other liabilities	**(39 770 623)**	(39 770 623)	–	–	–	–	–	**(39 770 623)**
Total liabilities	**(4 817 466 879)**	**(2 609 628 281)**	**(337 458 184)**	**(246 810 991)**	**(135 468 294)**	**(1 203 223 303)**	**(284 877 826)**	**(4 817 466 879)**
Net liquidity gap	**350 373 628**	**(448 032 433)**	**(271 709 780)**	**(215 243 426)**	**181 747 306**	**165 717 589**	**937 894 372**	**350 373 628**
Cumulative liquidity gap		**(448 032 433)**	**(719 742 213)**	**(934 985 639)**	**(753 238 333)**	**(587 520 744)**	**350 373 628**	

Even though there is mismatch in the maturity gap analysis, management is addressing this through regular monitoring of current and future cash flows.

Amounts in Pula	Carrying amount	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Gross nominal inflow/ (outflow)
2020								
ASSETS								
Cash and cash equivalents	1 107 851 433	1 089 406 431	18 445 002	–	–	–	–	1 107 851 433
Investment securities	297 312 388	–	–	21 626 555	131 500 087	93 785 509	50 400 237	297 312 388
Repurchase agreements	285 516 472	39 999 999	–	–	245 516 473	–	–	285 516 472
Loans and advances to customers (gross)	2 184 647 169	507 595 481	1 109 635	197 507 233	42 379 343	816 372 335	619 683 142	2 184 647 169
Other assets	9 050 401	9 050 401	–	–	–	–	–	9 050 401
Total assets	3 884 377 863	1 646 052 312	19 554 637	219 133 788	419 395 903	910 157 844	670 083 379	3 884 377 863
LIABILITIES								
Deposits from customers	(3 038 484 162)	(1 371 560 328)	(127 304 569)	(290 320 123)	(1 084 271 432)	(164 974 263)	(53 447)	(3 038 484 162)
Borrowings	(276 985 036)	(39 870 916)	–	–	(237 114 120)	–	–	(276 985 036)
Subordinated debt	(277 621 813)	(30 997 768)	(2 114 305)	(2 769 630)	(7 171 597)	(42 754 685)	(191 813 828)	(277 621 813)
Preference shares	(26 132 000)	–	–	–	–	(26 132 000)	–	(26 132 000)
Lease liabilities	(6 285 909)	(404 071)	(810 762)	(1 152 058)	(2 189 193)	(1 729 825)	–	(6 285 909)
Other liabilities	(19 160 085)	(19 160 085)	–	–	–	–	–	(19 160 085)
Total liabilities	(3 644 669 005)	(1 461 993 168)	(130 229 636)	(294 241 811)	(1 330 746 342)	(235 590 773)	(191 867 275)	(3 644 669 006)
Net liquidity gap	239 708 858	184 059 144	(110 674 999)	(75 108 023)	(911 350 439)	674 567 071	478 216 104	239 708 858
Cumulative liquidity gap		184 059 144	73 384 145	(1 723 878)	(913 074 317)	(238 507 246)	239 708 858	

5 *FINANCIAL RISK MANAGEMENT (continued)*

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The objective of the Bank is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each branch. The responsibility is supported by the development of overall standards in the Bank for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards.

Compliance with FMBcapital Holdings Group standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with management of the business unit to which they relate, with summaries submitted to the Board Audit Committee.

(d) Capital risk management

Bank of Botswana sets and monitors the capital requirements for the Bank. The revised capital directive, which is based on Basel II, became effective 1 January 2016. It requires the Bank to maintain a minimum of 12.5% (2020: 12.5%) of risk-weighted assets covering operational, market and credit risks. The Bank's regulatory capital is analysed into two parts:

- Tier I capital, which includes paid-up stated capital, retained earnings and other reserves less goodwill or any intangible asset.
- Tier II capital, which includes property revaluation reserve, loan loss reserve, general provisions and subordinated debt.

5 *Financial risk management (continued)*

(d) *Capital risk management (continued)*

The following table shows the Bank's risk-weighted assets based on Basel II:

Amounts in Pula	Balance	Risk weight	Weighted value
Assets			
2021			
Cash	31 631 386	0%	–
Balances with Bank of Botswana	353 864 168	0%	–
Balances with domestic banks	604 452 298	20%	120 890 460
Balances credit quality A+ to A-	351 018 881	50%	175 509 441
Balances with foreign bank (credit rating BBB+ to BBB-)	183 013 365	100%	183 013 365
Claims on foreign banks (credit rating BB to B-)	17 199 011	100%	17 199 011
Claims on foreign banks (credit rating below B-)	542 124 586	150%	813 186 879
Long term loans and advances to customers	2 629 435 659		2 225 574 441
Loans to Domestic Public Sector	65 414 042	20%	13 082 808
Commercial loans (credit rating BBB+ to BB-)	533 550 504	100%	533 550 504
Past due exposure where specific provision is less than 20% of the loan	41 959 128	150%	62 938 692
Past due exposure where specific provision is greater than 20% but less than 50% of the loan.	4 807 243	100%	4 807 243
Past due exposure where specific provision is equal to 50% or more of the loan	7 440 756	50%	3 720 378
Past due exposure where specific provision is less than 20% of the loan	1 058 429	150%	1 587 644
Past due exposures where specific provision is more than 50% of the outstanding loan	284 233	50%	142 117
Residential mortgage property (qualifying)	42 388 911	35%	14 836 119
Residential mortgage property (non-qualifying)	16 349 020	75%	12 261 765
Past due non-qualifying residential mortgages where specific provision less than 20% of the loan	1 143 633	150%	1 715 450
Past due non-qualifying residential mortgages where specific provision is equal to or greater than 20% but less than 50% of the loan	1 250 706	100%	1 250 706
Past due non-qualifying residential mortgages where specific provision is equal to 50% or more of the loan	373 432	50%	186 716
Retail loans	1 369 020 797	75%	1 026 765 598
Loans and advances fully secured by mortgage on commercial real estate	535 727 071	100%	535 727 071
Past due exposure where specific provision is less than 20% of the loan	8 667 754	150%	13 001 631
Significant investment equity or regulatory capital instruments issued by unconsolidated financial institutions (banks or security firms)	30 000	250%	75 000
Other assets	47 309 534	100%	47 309 534
Property and equipment	66 522 321	100%	66 522 321
Commitments – Original maturity up to 1 year	114 675 706	20%	22 935 141
Commitments – Direct assistance	72 111 791	100%	72 111 791
Performance and bid bonds	58 661 000	0%	–
Total credit risk-weighted assets	**5 072 049 707**		**3 744 327 386**

5 *Financial risk management (continued)*

(d) *Capital risk management (continued)*

The following table shows the Bank's risk-weighted assets based on Basel II:

Amounts in Pula	Balance	Risk weight	Weighted value
Assets			
2020			
Cash	83 975 913	0%	–
Balances with Bank of Botswana	117 434 939	0%	–
Balances with domestic banks	415 955 896	20%	83 191 179
Balances credit quality A+ to A-	297 889 591	50%	148 944 800
Balances with foreign bank (credit rating BBB+ to BBB-)	130 392 623	100%	130 392 623
Claims on foreign banks (credit rating BB to B-)	548 972 579	100%	548 972 579
Long term loans and advances to customers	1 762 536 662		1 437 285 256
Loans to Domestic Public Sector	60 650 028	20%	12 130 006
Commercial loans (credit rating BBB+ to BB-)	343 745 520	100%	343 745 520
Past due exposure where specific provision is less than 20% of the loan.	10 128 913	150%	15 193 370
Past due exposure where specific provision is greater than 20% but less than 50% of the loan.	11 728 588	100%	11 728 588
Past due exposure where specific provision is equal to 50% or more of the loan.	11 642 610	50%	5 821 305
Residential mortgage property (qualifying)	35 484 071	35%	12 419 425
Residential mortgage property (non-qualifying)	36 673 000	75%	27 504 750
Past due non-qualifying residential mortgages where specific provision is equal to or greater than 20% but less than 50% of the loan.	1 210 222	100%	1 210 222
Past due non-qualifying residential mortgages where specific provision is equal to 50% or more of the loan	378 253	50%	189 127
Retail loans	969 144 443	75%	726 858 333
Loans and advances fully secured by mortgage on commercial real estate.	277 478 938	100%	277 478 938
Past due exposure where specific provision is greater than 20% but less than 50% of the loan	1 739 267	100%	1 739 267
Past due exposure where specific provision is equal to 50% or more of the loan	2 532 809	50%	1 266 405
Other assets	18 920 654	100%	18 920 654
Property and equipment	68 291 132	100%	68 291 132
Commitments – Original maturity up to 1 year	313 436 463	20%	62 687 293
Commitments – Direct assistance	19 628 306	100%	19 628 306
Performance and bid bonds	84 375 845	0%	–
Total credit risk-weighted assets	3 861 810 603		2 518 313 822

5 *Financial risk management (continued)*

(d) *Capital risk management (continued)*

Amounts in Pula	2021	2020
Market risk-weighted assets		
Foreign exchange risk (note 5 market risk – page •• & ••)	**5 191 998**	10 551 713
Capital requirement @ 8%	**415 360**	844 137
Risk-weighted amount factor	**6.7**	6.7
Market risk-weighted assets	**2 782 912**	5 655 718
Total risk-weighted assets		
Credit risk-weighted assets	**3 744 327 386**	2 518 313 817
Market risk-weighted assets	**2 782 911**	5 655 718
Operational risk-weighted assets	**261 609 615**	207 918 002
	4 008 719 912	2 731 887 537
The following table shows the capital adequacy for the Bank based on Basel II:		
Capital adequacy		
Tier 1 capital		
Stated capital	**140 000 000**	140 000 000
Retained income	**252 467 283**	184 334 642
IFRS 9 transition amortisation	**–**	4 298 733
Less: intangible asset and right-of-use assets	**(6 987 750)**	(12 034 896)
Credit loss reserve	**15 289 391**	15 289 391
	400 768 924	331 887 870
Tier 2 capital		
General provision – ECL (note 9)	**46 804 092**	16 152 611
Subordinated debt (Note 18)	**163 000 000**	164 000 000
Preference shares	**26 132 000**	26 132 000
	235 936 092	206 284 611
Total regulatory capital	**636 705 016**	538 172 481
Risk-weighted assets	**4 008 719 912**	2 731 887 537
Capital adequacy ratio	**15.88%**	19.70%
Regulatory requirement	**12.50%**	12.50%

(e) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holding of financial instruments. The objective of the Bank's market risk management policy is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk

Interest rate risk is the exposure of Bank's financial condition to adverse movements in interest rates. It arises from timing differences in the maturity or re-pricing of the Bank's assets and liabilities. Changes in interest rates can have adverse effects on the Bank's earnings and its economic value. The ALCO monitors interest rate risk in the Bank. Interest rate sensitivity analyses as on the reporting date are set out on the next page.

5 *Financial risk management (continued)*

(e) *Market risk (continued)*

Interest rate sensitivity analysis

Amounts in Pula	Interest rate sensitive instruments			
	Zero rate	Floating rate	Fixed rate	Total
2021				
Total assets	**522 963 066**	**2 305 079 804**	**2 347 127 704**	**5 175 170 574**
Total liabilities and shareholders' funds	**1 654 507 039**	**521 585 596**	**2 999 077 939**	**5 175 170 574**
Interest sensitivity gap	**–**	**1 783 494 208**	**(651 950 235)**	**–**
Increase/(decrease) in profit or loss due to an increase in the average interest rates				
1%	**–**	**17 834 942**	**(6 519 502)**	
2%	**–**	**35 669 884**	**(13 039 005)**	
3%	**–**	**53 504 826**	**(19 558 507)**	
(Decrease)/increase in profit or loss due to a decrease in the average interest rates				
1%	**–**	**(17 834 942)**	**6 519 502**	
2%	**–**	**(35 669 884)**	**13 039 005**	
3%	**–**	**(53 504 826)**	**19 558 507**	

Amounts in Pula	Interest rate sensitive instruments			
	Zero rate	Floating rate	Fixed rate	Total
2020				
Total assets	431 996 513	2 097 107 907	1 387 821 315	3 916 925 735
Total liabilities and shareholders' funds	1 353 555 073	594 021 422	1 969 349 240	3 916 925 735
Interest sensitivity gap	–	1 503 086 485	(581 527 925)	–
Increase/(decrease) in profit or loss due to an increase in the average interest rates				
1%	–	15 030 865	(5 815 279)	
2%	–	30 061 730	(11 630 559)	
3%	–	45 092 595	(17 445 838)	
(Decrease)/increase in profit or loss due to a decrease in the average interest rates				
1%	–	(15 030 865)	5 815 279	
2%	–	(30 061 730)	11 630 559	
3%	–	(45 092 595)	17 445 838	

5 *Financial risk management (continued)*

(e) *Market risk (continued)*

Interest rate sensitivity analysis (continued)

Amounts in Pula	2021	2020
Equity	**410 762 785**	342 630 144
Increase/(decrease) in profit or loss due to an increase in the average interest rates		
1%	**4 107 628**	3 426 301
2%	**8 215 256**	6 852 603
3%	**12 322 884**	10 278 904
(Decrease)/increase in profit or loss due to a decrease in the average interest		
1%	**(4 107 628)**	(3 426 301)
2%	**(8 215 256)**	(6 852 603)
3%	**(12 322 884)**	(10 278 904)

Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities at reporting date were as follows:

Amounts in Pula	2021 %	2020 %
Assets		
Government securities	**0.25**	0.25
Deposits with banking institutions	**3.25**	1.0
Loans and advances to customers – Consumer Lending	**22.85**	23.75
Loans and advances to customers – Corporate	**7.45**	7.67
Liabilities		
Customer deposits (average rate)	**1.10**	1.00
Subordinated debt (average rate)	**6.28**	6.53

Foreign exchange rate risk management

The responsibilities of the integrated treasury department include monitoring of foreign exchange risk. Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. This involves the risk of the Bank incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.
- Holding foreign currency position in the Bank books (e.g., in the form of loans, deposits, cross border investments, etc.).
- Engaging in derivative transactions that are denominated in foreign currency for trading or hedging purposes.

5 *Financial risk management (continued)*

(e) *Market risk (continued)*

Foreign exchange rate risk management (continued)

The treasury department is responsible for:

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.
- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy.
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

The ALCO regularly monitors the controls put in place by the treasury department, which are approved and reviewed by the Board from time to time.

The Bank's foreign exchange exposures in Botswana Pula at the reporting date were as follows:

Amounts in Pula	Assets	Liabilities	Forward/spot purchases and sales	Net	Long	Short	Sensitivity
2021							
USD	**724 232 580**	**865 872 167**	**139 670 000**	**(1 969 587)**	**–**	**(1 969 587)**	**(19 696)**
GBP	**50 141 625**	**52 218 215**	**1 742 000**	**(334 590)**	**–**	**(334 590)**	**(3 346)**
EUR	**352 671 160**	**101 286 599**	**(252 538 000)**	**(1 153 440)**	**–**	**(1 153 440)**	**(11 534)**
ZAR	**37 155 556**	**164 368 460**	**125 864 000**	**(1 348 904)**	**–**	**(1 348 904)**	**(13 489)**
INR	**1 727 634**	**–**	**(51 000)**	**1 676 634**	**1 676 634**	**–**	**16 766**
JPY	**300 975**	**278 453**	**(408 000)**	**(385 478)**	**–**	**(385 478)**	**(3 855)**
MWK	**117 145 929**	**117 145 929**	**–**	**–**	**–**	**–**	**–**
	1 283 375 458	**1 301 169 823**	**14 279 000**	**(3 515 365)**	**1 676 634**	**(5 191 999)**	**(35 154)**

A 1% strengthening of the Botswana Pula against the foreign currencies above at the reporting date will (increase)/decrease profit or loss by the amounts disclosed in the sensitivity column above. The analysis assumes that all other variables in particular, interest rates, remain constant.

A 1% weakening of the Botswana Pula against these currencies at the reporting date would have the equal but opposite effect.

Amounts in Pula	Assets	Liabilities	Forward/spot purchases and sales	Net	Long	Short	Sensitivity
2020							
USD	1 008 236 923	817 193 096	(190 572 000)	471 827	–	471 827	4 718
GBP	31 216 720	30 997 414	742 000	961 306	–	961 306	9 613
EUR	146 392 921	101 982 036	(45 716 000)	(1 305 115)	(1 305 115)	–	(13 051)
ZAR	103 924 782	122 528 974	12 087 000	(6 517 192)	(6 517 192)	–	(65 172)
INR	2 045 449	–	243 000	2 288 449	–	2 288 449	22 884
JPY	341 594	–	(3 071 000)	(2 729 406)	(2 729 406)	–	(27 294)
MWK	237 114 120	237 114 120	–	–	–	–	–
	1 529 272 509	1 309 815 640	(226 287 000)	(6 830 131)	(10 551 713)	3 721 582	(68 302)

5 *Financial risk management (continued)*

(f) Compliance risk

Compliance is an independent core risk management function. The Head of Compliance has unrestricted access to the Chief Executive Officer and the Chairman of the Board. The Bank is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the Bank's compliance risk.

Money laundering control and occupational health and safety (including aspects of environmental risk management) are managed within the compliance function and there are legislative requirements in both these areas. The Bank has adopted anti-money laundering policies including Know-Your-Customer (KYC) policies and procedures and adheres to the country's anti-money laundering (AML) legislation and regulations as well as combating terrorist financing.

The management of compliance risk has become a distinct discipline within the Bank's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory universe and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the KYC and AML procedures and legislation is an area of major focus for the Bank. The Bank has a dedicated AML Officer.

6 Cash and cash equivalents

	SEPARATE	
Amounts in Pula	2021	2020
Balances with the Central Bank	**278 851 066**	67 034 702
Balances with local banks	**393 710 361**	353 779 381
Balances with foreign banks	**514 684 084**	598 213 531
Restricted cash*	**4 888 490**	4 847 906
Cash balances	**31 631 386**	83 975 913
	1 223 765 387	1 107 851 433
Gross cash and cash equivalents	**1 224 007 975**	1 108 228 302
Expected credit losses	**(242 587)**	(376 869)
Total cash and cash equivalents	**1 223 765 387**	1 107 851 433

* *Restricted cash comprises an escrow account on acquisition of Bank of India (Botswana) Limited. This money is to cover for the contingent consideration for the Bank of India Botswana acquisition that was undertaken in November 2019.*

Balances with other banks relate to operating account balances domiciled at the various correspondent banking institutions. Placements with other banks relate to lending to other banks for a period of one day up to three months.

7 Investment securities

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Local registered government bonds	**75 013 102**	50 400 237
International Financial Corporation (IFC) bond	**–**	93 785 509
Placements with local banks	**23 509 147**	22 734 019
Placements with foreign banks	**153 468 663**	130 392 623
	251 990 912	297 312 388
Gross investment securities	**252 011 612**	297 377 077
Expected credit losses	**(20 700)**	(64 689)
	251 990 912	297 312 388

The investment securities mature between 126 days and 9.7 years. P75 million government bonds (2020: P55 million IFC bonds) are pledged to Bank of Botswana for a Statutory Lending Facility (SLF), available in case of emergencies.

8 Repurchase agreements

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Balances with local banks	**264 600 470**	34 594 594
Balances with foreign banks	**425 203 096**	250 921 878
	689 803 566	285 516 472

The Bank entered into foreign currency repurchase agreements with both domestic and foreign banks. Refer to note 40 for information on currency swap transactions (assets and liabilities) entered into with related parties, namely First Capital Bank Malawi Limited and First Capital Bank Zimbabwe Limited.

9 Loans and advances to customers

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Gross loans and advances are receivable as follows:		
Gross loans and advances	**2 966 060 107**	2 181 524 750
Expected credit losses	**(81 653 758)**	(58 193 341)
Net loans and advances	**2 884 406 349**	2 123 331 409

The directors consider that the carrying amount of loans and advances approximates their fair values.

Loans and advances are issued at market related interest rates.

Amounts in Pula	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021				
Opening impairment as at 1 January 2021	**(16 152 611)**	**(10 294 723)**	**(31 746 007)**	**(58 193 341)**
Transfer between stages:	**3 722 049**	**7 661 061**	**(11 383 110)**	**–**
Transfer (to)/from stage 1	**1 939 175**	**(4 195 549)**	**2 256 374**	**–**
Transfer (to)/from stage 2	**1 122 573**	**11 420 275**	**(12 542 848)**	**–**
Transfer (to)/from stage 3	**660 301**	**436 335**	**(1 096 636)**	**–**
Net impairments (raised)/released	**(18 950 742)**	**(15 532 900)**	**8 259 973**	**(26 223 669)**
Net impairment movement during the year	**(18 950 742)**	**(15 532 900)**	**8 259 973**	**(26 223 669)**
Impaired accounts written off	**–**	**–**	**18 424 650**	**18 424 650**
Recoveries	**–**	**–**	**(14 537 004)**	**(14 537 004)**
Net movement on interest in suspense			**(1 124 394)**	**(1 124 394)**
Balance as at 31 December 2021	**(31 381 304)**	**(18 166 562)**	**(32 105 892)**	**(81 653 758)**

Amounts in Pula	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2020*				
Opening impairment as at 1 January 2020	(4 620 406)	(4 916 011)	(30 439 979)	(39 976 396)
Transfer between stages:	(6 674 221)	(6 938 451)	13 612 672	–
Transfer (to)/from stage 1	(6 343 474)	6 482 543	(139 069)	–
Transfer (to)/from stage 2	(333 842)	(13 220 603)	13 554 445	–
Transfer (to)/from stage 3	3 095	(200 391)	197 296	–
Net impairments (raised)/released	(4 857 984)	1 559 739	(30 185 229)	(33 483 474)
Net impairment movement during the year	(4 857 984)	1 559 739	(30 285 229)	(33 483 474)
Impaired accounts written off	–	–	18 028 881	18 028 881
Recoveries	–	–	(2 708 810)	(2 708 810)
Net movement on interest in suspense	–	–	(53 542)	(53 542)
Balance as at 31 December 2020	(16 152 611)	(10 294 723)	(31 746 007)	(58 193 341)

* *Amounts reclassified to ensure comparability.*

Included in stage 2 is an additional P10 million management overlay (P6 million in 2020 included in stage 1). Refer to note 45.

10 Other assets

	SEPARATE	
Amounts in Pula	2021	2020
Clearing accounts	**3 608 389**	1 173 603
EFT retail account	**2 139 100**	–
Unmatured mark-to-market forward revaluation	**23 872 499**	7 497 814
Prepaid expenses	**2 251 572**	2 941 477
Prepaid staff fair value adjustment	**8 477 319**	6 496 110
Security deposit	**360 108**	432 667
Visa settlement and collateral	**5 856 396**	58 600
Other	**744 151**	320 383
	47 309 534	18 920 654
Other assets (total)	**47 309 534**	18 920 654
Prepaid expense	**(2 251 572)**	(2 941 477)
Prepaid staff fair value adjustment	**(8 477 319)**	(6 496 110)
Security deposit	**(360 108)**	(432 666)
Other financial assets	**36 220 535**	9 050 401
Movement in other assets	**28 388 880**	18 791 332
Non-cash movement	**552 583**	3 941 764
Net movement in other assets (note 36)	**28 941 463**	22 733 096

See note 16 for details of mark-to-market liabilities. Included in “Other” is a receivable of P464 940 (2020: P280 074) due from related parties – refer to note 40 for further details.

11 Property, equipment and intangible assets

Amounts in Pula	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Capital work in progress	Total
	SEPARATE			SEPARATE			
2021							
Cost or valuation							
At beginning of year	3 110 584	29 140 685	23 276 843	6 555 271	55 200 000	226 238	117 509 621
Additions	–	209 857	9 000	939 280	–	3 061 593	4 219 730
Disposals	(68 750)	–	–	(54 014)	–	–	(122 764)
At end of year	3 041 834	29 350 542	23 285 843	7 440 537	55 200 000	3 287 831	121 606 587
Accumulated depreciation							
At beginning of year	2 009 539	19 199 289	15 659 618	4 732 820	–	–	41 601 266
Charge for the year	430 303	3 413 916	2 169 001	706 047	1 375 256	–	8 094 523
Disposals	(68 750)	–	(19 195)	–	–	–	(87 945)
At end of year	2 371 092	22 613 205	17 809 424	5 438 867	1 375 256	–	49 607 844
Carrying amount	670 742	6 737 337	5 476 419	2 001 670	53 824 744	3 287 831	71 998 743

Amounts in Pula	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Capital work in progress	Total
	SEPARATE			SEPARATE			
2020							
Cost or valuation							
At beginning of year	3 123 781	32 273 769	30 854 274	10 881 244	58 837 605	541 578	136 512 251
Additions	–	583 079	644 755	352 270	–	–	1 580 104
Transfer	–	–	274 823	–	–	(274 823)	–
Restatement of cost on revaluation	–	—	–	–	(7 320 787)	–	(7 320 787)
Revaluation gain	–	–	–	–	3 683 182	–	3 683 182
Disposals	(13 197)	(3 716 163)	(8 497 009)	(4 678 243)	–	(40 517)	(16 945 129)
At end of year	3 110 584	29 140 685	23 276 843	6 555 271	55 200 000	226 238	117 509 621
Accumulated depreciation							
At beginning of year	1 584 997	19 585 180	19 912 036	6 838 685	5 826 868	–	53 747 766
Charge for the year	435 320	3 728 476	3 427 262	1 557 137	1 493 919	–	10 642 114
Disposals	(10 778)	(4 114 367)	(7 679 680)	(3 663 002)	–	–	(15 467 827)
Elimination of accumulated depreciation on revaluation	–	–	–	–	(7 320 787)	–	(7 320 787
At end of year	2 009 539	19 199 289	15 659 618	4 732 820	–	–	41 601 266
Carrying amount	1 101 045	9 941 396	7 617 225	1 822 451	55 200 000	226 238	75 908 355

Freehold property consists of a commercial property, occupied by the Bank, measuring 2 380 square metres, located on Plot 17954, Old Lobatse Road in Gaborone and the head office located on Plot 74768, 2nd Commercial Road, New CBD in Gaborone measuring 5 061 square metres.

The freehold property and improvements thereon at Plot 17954, Old Lobatse Road, Gaborone and at Plot 74768, 2nd Commercial Road, New CBD, Gaborone were revalued on 11 February 2021 by Curtis Matobolo BSc (Hons); MRICS; MREIB of Knight Frank Botswana Limited, independent registered valuers on an open market value basis. The effective date for these valuations is 31 December 2020. The resultant surplus on valuation was credited to a property revaluation reserve. This reserve is not available for distribution until realised. The fair value measurement for properties has been categorised as Level 3 fair value based on the inputs to the valuation techniques used. The revaluation is performed every two years.

11 *PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)*

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Valuation was based on market value derived using investment methods considering appropriate comparable investments and rental transactions, together with evidence of demand within the vicinity of the valued properties. The independent valuer also considered the size, location, terms, covenants and other material factors.	▪ Comparable rentals (2019 and 2020); ▪ Comparable sales (2019 and 2020); ▪ Projected increase in market rentals; ▪ Projected demand for office space due to legislative changes; ▪ Prime yields of 8%.	The estimated fair values would increase (decrease) if: ▪ Comparable rentals were higher (lower); ▪ Comparable sales were higher (lower); ▪ Projected market rentals were higher (lower); ▪ Demand for office space were higher (lower); ▪ Prime yields were higher (lower).

Amounts in Pula	2021	2020
Property revaluation reserve		
Opening balance	**3 006 111**	133 229
Revaluation gain	**–**	3 683 182
Deferred tax on revaluation gain (note 17)	**–**	(810 300)
	3 006 111	3 006 111

12 Right-of-use assets

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Right-of-use-assets (Bank as lessee)		
Cost		
Opening balance	**9 957 104**	7 699 148
Additions	**1 099 175**	3 085 557
Terminated during the year	**(4 374 616)**	(827 601)
At end of year	**6 681 663**	9 957 104
Accumulated depreciation		
Opening balance	**5 539 433**	2 382 681
Charge for the year	**2 554 186**	3 587 426
Terminated during the year	**(2 923 287)**	(430 674)
At end of year	**5 170 332**	5 539 433
Carrying amount	**1 511 331**	4 417 671

The Bank leases several buildings with average lease terms of two to five years. Total cash flows from the leases amounted to P2 440 190 (2020: P3 716 079).

13 Deposits from customers

Amounts in Pula	SEPARATE 2021	2020
Current accounts	**550 816 870**	444 796 214
Savings accounts	**130 772 237**	75 468 723
Foreign currency denominated accounts	**624 885 873**	544 696 801
Call deposit accounts	**177 133 977**	281 133 754
Term deposit accounts	**2 229 395 476**	1 692 388 670
	3 713 004 433	3 038 484 162

14 Balances due to other banks

Amounts in Pula	SEPARATE 2021	2020
Currency swap liabilities	**687 426 294**	276 985 036
Borrowings from other local banks	**82 256 169**	–
	769 682 463	276 985 036

All balances due to other banks are stated at amortised cost and are short term borrowings to the Bank. They are for a period ranging from five days to 360 days. The Bank entered into foreign currency swap agreements with both domestic and foreign banks. Refer to note 40 for information on currency swap transactions (assets and liabilities) entered into with related parties namely First Capital Bank Malawi Limited and First Capital Bank Zimbabwe Limited.

15 Lease liabilities

Amounts in Pula	SEPARATE 2021	2020
Carrying amount	**2 479 674**	5 272 017
Maturity analysis:		
Year 1	**1 888 201**	4 069 480
Year 2	**647 284**	1 714 677
Year 3	**192 168**	451 609
Year 4	**155 548**	50 143
Year 5	**101 017**	–
Total undiscounted lease liabilities at 31 December	**2 984 218**	6 285 909
Less: unearned interest	**(504 544)**	(1 013 892)
	2 479 674	5 272 017
Analysed as:		
Current	**1 566 047**	3 821 206
Non-current	**913 627**	1 450 811
	2 479 674	5 272 017

16 OTHER LIABILITIES

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Accrued expenses	**7 842 176**	8 541 106
Bankers cheques issued and uncleared	**2 527 018**	1 015 000
Clearing account	**5 439 786**	3 030 609
Expected credit losses on guarantees and letters of credit	**3 821 534**	155 136
Payroll accruals	**12 485 386**	10 260 850
VAT and withholding taxes	**4 125 098**	3 780 636
Visa settlement	**1 710 080**	3 063 806
Unmatured mark to market forward revaluation	**14 656 540**	4 163 821
Others	**4 365 573**	36 218
	56 973 191	34 047 182
Movement in other liabilities	**(22 926 009)**	4 184 947
Expected credit losses on guarantees and letters of credit	**3 666 398**	542 659
Net movement in other liabilities (note 36)	**(19 259 611)**	4 727 606
Other liabilities (total)	**56 973 191**	34 047 182
VAT and withholding taxes	**(4 125 098)**	(3 765 710)
PAYE	**(592 084)**	(860 537)
Payroll accruals	**(12 485 386)**	(10 260 850)
Other financial liabilities	**39 770 623**	19 160 085

Payroll accruals

The movement of payroll accruals is set out in the tables below:

Amounts in Pula	Leave pay	Severance pay	Bonus	Gratuity	Total
2021					
Balance – 1 January 2021	**2 006 068**	**33 708**	**7 029 477**	**1 191 597**	**10 260 850**
Provisions made during the year	**1 123 178**	**67 358**	**9 816 967**	**912 115**	**11 919 618**
Payments during the year	**(456 409)**	**(55 358)**	**(8 753 412)**	**(429 903)**	**(9 695 082)**
Balance – 31 December 2021	**2 672 837**	**45 708**	**8 093 032**	**1 673 809**	**12 485 386**

Amounts in Pula	**Leave pay**	**Severance pay**	**Bonus**	**Gratuity**	**Total**
2020					
Balance – 1 January 2020	1 654 137	109 354	6 000 000	1 348 106	9 111 597
Provisions made during the year	351 931	77 918	7 000 000	1 041 260	8 471 109
Payments during the year	–	(153 564)	(5 970 523)	(1 197 769)	(7 321 856)
Balance – 31 December 2020	2 006 068	33 708	7 029 477	1 191 597	10 260 850

17 Deferred tax liabilities

Movement in deferred taxation

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Opening balance	**(5 359 964)**	(2 148 405)
Current year charge to profit or loss (note 32)	**(2 632 503)**	(2 401 259)
	(7 992 467)	(4 549 664)
Deferred tax on revaluation charged to equity	**–**	(810 300)
	(7 992 467)	(5 359 964)
Analysis of deferred taxation		
Accelerated capital allowances on property and equipment	**(837 543)**	(1 847 200)
Other temporary differences	**(7 154 924)**	(3 512 764)
Total	**(7 992 467)**	(5 359 964)

18 Subordinated debt

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Opening balance	**187 000 000**	182 000 000
Funds received	**–**	5 000 000
	187 000 000	187 000 000
Accrued interest	**1 790 172**	1 858 658
Unamortised issue costs	**(646 611)**	(843 428)
	188 143 561	188 015 230
Total subordinated debt – as per above	**187 000 000**	187 000 000
Less: subordinated debt not yet approved by Central Bank at year end	**–**	(5 000 000)
	187 000 000	182 000 000
Less: amortisation of subordinated debt older than 5 years	**(24 000 000)**	(18 000 000)
Qualifying capital (Basel II)	**163 000 000**	164 000 000

Subordinated debt comprises of:

- P30 million floating rate notes of P1.00 each maturing on 18 January 2022 and earning interest at 70 basis points below the Botswana bank rate for the first five years per annum, and thereafter at 20 basis points below the Botswana bank rate per annum with African Alliance Botswana. At reporting date this debt has since matured.
- P15 million floating rate notes of P1.00 each maturing on 1 July 2027 and earning interest at 270 basis points above the Botswana bank rate per annum with African Alliance Botswana.
- P33 million floating rate notes of P1.00 each maturing on 25 July 2028 and earning interest at 290 basis points above the Botswana bank rate per annum with African Alliance Botswana. The Bank has an early optional redemption date of 25 January 2023 subject to prior written consent from Bank of Botswana.
- P100 million floating rate notes of P1.00 each maturing on 31 May 2029 and earning interest at 325 basis points above the Botswana bank rate per annum with Botswana Insurance Fund Management. The Bank has an early optional redemption date of 30 April 2024 subject to prior written consent from Bank of Botswana.

18 *Subordinated DEBT (continued)*

- P4 million floating rate notes of P1.00 each maturing on 31 May 2029 and earning interest at 290 basis points above the Botswana bank rate per annum with Morula Capital Partners. The Bank has an early optional redemption date of 30 April 2024 subject to prior written consent from Bank of Botswana.
- P5 million floating rate notes of P1.00 each maturing on 31 January 2030 and earning interest at 325 basis points above the Botswana bank rate per annum with Kgori Capital. The Bank has an early optional redemption date of 16 January 2025 subject to prior written consent from Bank of Botswana.

19 Preference shares

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Redeemable Preference shares of no par value		
Opening balance 1 January	**26 132 000**	26 132 000
Closing balance 31 December	**26 132 000**	26 132 000

The preference shares earn dividends at the Botswana bank rate plus 300 basis points, currently 6.75% per annum. The preference shares have no fixed repayment terms, are unsecured and are subordinate to claims by depositors and general creditors of the Bank. On winding up, preference shares are paid in priority to ordinary shares.

20 Stated capital

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Ordinary shares of no par value		
Opening balance	**140 000 000**	140 000 000
Closing balance	**140 000 000**	140 000 000

Stated capital comprises 101 833 333 (2020: 101 833 333) issued and fully paid ordinary shares of no par value. There are no unissued shares under the control of the directors. The holders of issued shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

21 Credit loss reserve

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Balance at beginning of year	**15 289 391**	27 283 602
Transfer to retained earnings	**–**	(11 994 211)
Balance at end of year	**15 289 391**	15 289 391

This represents non-distributable reserves required by Bank of Botswana.

22 Interest income

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Loans and advances	**331 810 994**	262 160 581
Investment securities	**21 425 658**	24 905 412
Placements with other banks	**9 625 813**	14 580 573
	362 862 465	301 646 566

23 Interest expense

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Current accounts	**1 249 483**	1 437 264
Savings accounts	**649 146**	648 708
Call deposits	**4 292 191**	4 308 945
Fixed deposits	**87 717 288**	73 998 595
Borrowing from other banks	**2 677 442**	3 390 378
Subordinated debt	**11 871 110**	13 109 602
Preference shares	**1 763 910**	1 907 779
Lease liability	**401 297**	459 882
	110 621 867	99 261 153

24 Fees and commission income

	SEPARATE	
Amounts in Pula	**2021**	**2020***
Account activity fees	**3 746 525**	3 675 771
Card-based transaction fess	**2 931 685**	3 327 834
Guarantees	**5 211 091**	3 858 696
Insurance commission	**(1 487 771)**	1 156 783
Other fees and commission	**8 264 888**	6 463 174
	18 666 418	18 482 258

* *Details related to prior year reclassification are disclosed in note 39.*

25 Gain on foreign exchange transactions

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Foreign currency trading	**37 514 989**	41 599 384
Commission on foreign currency transactions	**3 042 016**	3 065 427
	40 557 005	44 664 811

26 Other operating income

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Profit on disposal of property and equipment	**98 945**	–
Other income	**603 945**	59 240
	702 890	59 240

27 Staff costs

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Salaries and wages	**47 524 438**	41 716 207
Contributions to staff defined contribution plan	**4 676 921**	3 523 211
Training costs	**724 924**	404 414
Other staff costs	**21 660 673**	17 545 252
	74 586 956	63 189 084

28 Premises and equipment costs

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Equipment hire	**691 497**	872 513
Rent, rates and utilities	**1 232 298**	2 348 785
Premises and equipment repairs and maintenance	**608 175**	536 567
Security costs	**1 077 140**	1 157 770
	3 609 110	4 915 635

29 Information technology costs

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Software licensing costs	**152 686**	19 610
Computer repairs and maintenance	**7 527 976**	7 114 695
Internet connectivity	**1 059 610**	1 084 033
	8 740 272	8 218 338

30 Administration and general expenses

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Auditor's remuneration	**1 865 107**	2 002 322
Bank charges	**7 289 315**	7 585 387
Non-executive Directors' fees and expenses	**1 654 757**	1 656 287
Fuel	**150 114**	158 135
Insurance	**1 371 376**	1 160 866
Legal and professional fees, fines and penalties	**2 671 037**	5 064 065
Marketing costs	**1 369 748**	1 705 700
Motor vehicle running costs	**109 378**	99 587
Operational losses	**373 364**	1 830 848
Other administration costs	**11 599 303**	9 027 334
Postage	**990 296**	561 804
Printing and stationery	**556 273**	638 296
Professional subscriptions	**39 483**	20 187
Communication costs	**1 431 334**	1 183 037
Travel expenses	**750 775**	559 284
	32 221 660	33 253 139

31 Net impairment losses on financial instruments

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Net expected credit loss raised and released		
– Investment securities and cash equivalents	**(178 463)**	336 177
– Loans and advances to customers	**39 434 635**	30 774 664
– Guarantees and letters of credit	**3 666 398**	(542 659)
	42 922 569	30 568 182
Recoveries on loans and advance to customers previously written off	**(14 537 004)**	2 708 810
	28 385 565	33 276 992
Loans and advances to customers	**40 760 673**	30 774 664
Recoveries on loans and advance to customers previously written off	**(14 537 004)**	2 708 810
Total (note 9)	**26 223 669**	33 483 474

32 Income tax expense

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Normal company taxation	**27 892 477**	19 870 468
Changes in income tax estimates related to prior year	**2 387 221**	–
Origination and reversal of temporary differences – deferred tax	**2 632 503**	2 401 259
Taxation per profit or loss	**32 912 201**	22 271 727
Tax reconciliation		
Profit before taxation	**135 907 076**	91 996 197
Taxation at statutory rate of 22% (2020: 22%)	**29 899 557**	20 239 163
Disallowed expenses	**490 996**	1 077 166
Changes in income tax estimates related to prior years	**2 387 221**	–
Prior year overstatement of deferred tax asset	**134 427**	955 398
Taxation per profit or loss	**32 912 201**	22 271 727

33 Earnings and dividend per share

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Profit attributable to ordinary shareholders	**102 994 875**	69 724 470
Weighted average number of ordinary shares in issue	**101 833 333**	101 833 333
Basic and diluted earnings per share (Pula)	**1.0114**	0.6847
Dividend paid	**34 862 234**	24 000 000
Dividend per share (Pula)	**0.3423**	0.2357

34 Interest and fee income received

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Interest income	**362 862 465**	301 646 566
Fees, commissions, and other income	**59 926 313**	63 206 307
Movement in accrued interest income	**1 213 781**	(3 450 249)
	424 002 559	361 402 624

35 Interest paid

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Interest expense	**110 621 867**	99 261 153
Borrowing cost IFRS16	**(401 297)**	(459 882)
Movement in accrued interest expense	**(5 217 987)**	(8 720 114)
	105 002 583	90 081 157

36 Cash paid to suppliers and employees

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Staff costs (note 27)	**74 586 956**	63 189 084
Fair value adjustment staff loans	**(1 781 773)**	(509 445)
Premises and equipment costs	**3 609 110**	4 915 635
Information technology costs	**8 740 272**	8 218 338
Accrued fines and penalties on VAT and Income tax	**–**	(1 910 898)
Profit/(loss) on disposal of fixed assets	**98 944**	(1 388 812)
Operational losses	**(373 364)**	(1 830 848)
Administration and general expenses	**32 221 660**	33 253 139
Shared services costs	**18 067 563**	16 512 796
	135 169 368	120 448 989
Movement in other assets (note 10)	**28 941 463**	22 733 096
Movement in other liabilities (note 16)	**19 259 608**	(4 727 606)
Movement in lease liability & right-of-use assets	**(2 668 182)**	(4 390 180)
	180 702 256	134 064 299

37 Net movement in customer balances

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Both net of accrued interest		
Liabilities to customers		
Total deposits	**3 713 004 433**	3 038 484 162
Total interest accrued	**(41 201 056)**	(36 202 557)
Net deposit	**3 671 803 377**	3 002 281 605
Less prior year net deposits	**(3 002 281 605)**	(2 534 749 665)
Movement in deposit balances	**669 521 772**	467 531 940
Loans and advances to customers		
Gross loans and advances	**2 966 060 107**	2 181 524 750
Total interest accrued	**(9 084 276)**	(9 041 543)
Staff loan fair value adjustment	**11 831 200**	10 049 426
Net loans and advances	**2 968 807 031**	2 182 532 633
Less prior year net loans and advances	**(2 182 532 633)**	(2 007 380 617)
Net movement in loans and advances to customers	**(786 274 398)**	(175 152 016)

38 Accrued interest

	SEPARATE	
Amounts in Pula	**2021**	**2020**
Accrued interest – receivable		
(included in loans and advances and respective instruments)		
Term loan	**9 084 276**	9 041 543
Stage 3 interest	**4 256 595**	3 122 419
Interbank lending	**914 258**	2 749 492
Investment securities	**185 304**	740 760
Total	**14 440 433**	15 654 214
Accrued interest – payable		
(included in deposits and respective instruments)		
Current deposits	**–**	18 861
Savings deposits	**–**	5 609
Fixed deposits	**41 201 056**	36 178 087
Total (included in deposits)	**41 201 056**	36 202 557
Subordinated debt	**1 790 172**	1 858 658
Balances due to other banks	**294 038**	6 064
Total	**43 285 266**	38 067 279

39 Reclassifications of prior year amounts

The following prior year amounts have been reclassified in the current year to ensure comparability.

Amounts in Pula	As previously reported 2020	Reclassi-fication 2020	Amount after reclassification 2020
Statement of profit and loss and other comprehensive income			
Fees and commission income	12 019 084	6 463 174	18 482 258
Other operating income	6 522 414	(6 463 174)	59 240
Premises and equipment costs	(14 999 093)	10 083 458	(4 915 635)
Information technology costs	–	(8 218 338)	(8 218 338)
Administration and general expenses	(47 900 815)	14 647 676	(33 253 139)
Shared services costs	–	(16 512 796)	(16 512 796)
Net impact	(44 358 410)	–	(44 358 410)

40 Related party transactions

The Bank transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of the Bank are set out below:

Amounts in Pula	Nature of transaction	2021 Amount of transaction	2020 Amount of transaction	2021 Balance receivable/ (payable) at year end	2020 Balance receivable/ (payable) at year end
Related party					
Directors	Loans/advances	**1 268 011**	2 011 438	**551 359**	1 819 370
	Deposits	**4 001 973**	7 010 098	**(15 717 444)**	(11 715 471)
	Interest income	**35 255**	71 031	**–**	–
	Interest expense	**60 501**	41 344	**–**	–
	Board meeting fees and expenses*	**1 654 757**	1 656 287	**–**	–
Directors' related entities	Loans/advances	**1 780 604**	8 171 712	**18 193 038**	19 983 642
	Deposits	**2 499 709**	1 427 358	**(4 569 872)**	(2 070 163)
	Interest income	**979 518**	429 658	**–**	–
	Interest expense	**131 602**	201 782	**–**	–
Management	Loans/advances	**(153 607)**	12 989 190	**8 845 159**	8 998 766
	Deposits	**(3 641 521)**	(388 123)	**(6 037 069)**	(2 395 548)
	Interest income	**223 862**	315 143	**–**	–
	Interest expense	**29 617**	16 112	**–**	–
	Remuneration: short term employee benefits	**29 792 899**	24 550 790	**–**	–
First Capital Bank (Malawi) Plc	Aircraft cost & other	**–**	671 588	**(253 331)**	32 686
	Placements	**–**	211 864 407	**–**	–
	Interest income	**12 376 487**	22 603 088	**544 602**	–
	Deposits	**23**	–	**–**	–
	Cash and cash equivalent	**(119 968 191)**	78 410 055	**117 145 929**	237 114 120
	Repurchase agreement – liability	**125 372 682**	(83 814 545)	**(117 145 929)**	(242 518 611)
	Repurchase agreement – asset	**(131 139 830)**	88 956 806	**117 508 813**	248 648 643
FMBcapital Holdings Plc (FMBCH)	Preference shares	**–**	–	**(26 132 000)**	(26 132 000)
	Dividend paid	**1 763 910**	1 907 779	**–**	–
	Interest income	**1 732 280**	768 746	**1 512 926**	183 784
	Loans/advances	**7 755 582**	21 621 621	**29 377 203**	21 621 621
	Deposits	**(55 911 020)**	(43 089 318)	**(99 000 338)**	(43 089 318)
	Management fees	**4 865 923**	4 810 900	**(287 203)**	(431 376)
First Capital Shared Services Limited (FCSSL)	Shared services fees	**10 489 485**	9 224 987	**(445 076)**	(324 655)

** More detail on board meeting fees and other expenses can be found on page 101.*

40 RELATED PARTY TRANSACTIONS (continued)

The Bank transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of the Bank are set out below:

Amounts in Pula	Nature of transaction	2021 Amount of transaction	2020 Amount of transaction	2021 Balance receivable/ (payable) at year end	2020 Balance receivable/ (payable) at year end
Related party					
First Capital Bank (Mozambique), S.A.	Placements	**29 377 203**	(31 779 661)	**29 377 203**	–
	Interest income	**852 551**	668 181	**172 999**	–
First Capital Bank Zimbabwe Limited	Deposits	**(263 190)**	(698 114)	**(263 190)**	(698 114)
	Interest income	**2 338 114**	–	**–**	–
	Repurchase agreement – liability	**(126 167 866)**	–	**(126 167 866)**	–
	Repurchase agreement – asset	**125 636 437**	–	**125 636 437**	–
First Capital Bank Insurance Agency (Jetwig Enterprises (Pty) Ltd)	Deposits	**(961 552)**	(1 302 309)	**(2 263 861)**	(1 302 309)
	Interest expense	**–**	84	**–**	–
	Non-interest income	**583**	560	**–**	–
	Management fee income	**464 940**	–	**464 940**	–
	Investment in subsidiary	**29 900**	–	**30 000**	100

Advances to directors and parties related thereto are in the normal course of business and considered to be adequately secured. Advances to employees carry interest at 2.25% to 7.25% per annum. All other transactions with related parties are carried at the agreed rate.

Advances to staff which are offered at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged by the other banks in Botswana on similar loans to non-related parties. No impairment losses have been recorded against loans to related parties.

The related party relationships with First Capital Bank Limited (Botswana) are outlined below:

Related party	Relationship
FMBcapital Holdings Plc	Ultimate shareholder
First Capital Bank (Malawi) Plc	Fellow subsidiary
First Capital Bank Holdings Limited	Fellow subsidiary
First Capital Bank (Mozambique), S.A.	Fellow subsidiary
First Capital Shared Services Limited	Fellow subsidiary
First Capital Bank Zimbabwe	Fellow subsidiary
First Capital Bank Insurance Agency (Jetwig Enterprises Proprietary Limited)	Wholly owned subsidiary (registered in Botswana)

40 *RELATED PARTY TRANSACTIONS (continued)*

Board meeting fees and expenses	2021	2020
Hitesh N. Anadkat	**165 637**	128 711.14
Stephen D. Pezarro	**314 297.81**	317 600.64
Hemantkumar K.l Patel	**254 274.13**	244 697.93
Richard C .Wright	**284 886**	365 240.44
Daniel Swabi	**128 895**	139 707.81
Judy N. Tsonope	**126 205**	111 997.17
Boitumelo K. Tibone	**57 179**	113 110.80
Shawn S. Bruwer	**123 539**	19 146.61
	1 454 912	1 440 213
Other directors expenses	**199 845**	216 074
Total	**1 654 757**	1 656 287

41 Contingencies and commitments

Amounts in Pula	2021	2020
Guarantees	**235 158 042**	209 017 689
Letter of credit	**–**	8 541 976
Loan commitments	**114 675 706**	313 436 463
Legal claims	**360 000**	–
Capital commitments*	**19 314 700**	1 000 000
	369 508 448	531 996 128

** Included in capital commitments is the cost for the opening of a new branch and loan centre in 2022.*

Contingencies in respect of guarantees issued will only crystallise into a liability in the event of default by the relevant counterparty. Loan commitments represent unused portions of approved loan facilities.

42 Investment in subsidiaries

During the year, the Bank deregistered Diron Ridge Proprietary Limited, which had not traded since incorporation, and wrote off the cost of the investment.

Additionally, the Bank capitalised First Capital Bank Insurance Agency (Jetwig Enterprises Proprietary Limited) by P29 900. The total investment in this company is now P30 000 (2020: P100).

The Bank has prepared separate Annual Financial Statements for its subsidiary Jetwig Enterprises Proprietary Limited in the current year, rather than consolidated financial statements as its parent company. These consolidated financial statements are available for public consumption at https://fmbcapitalgroup.com/.

43 Exchange rates and inflation

The average of the year end buying and selling rates of the major foreign currencies most affecting the performance of the Bank are stated below, together with movement in the National Consumer Price Index, which represent an official measure of inflation.

Exchange rates	2021	2020
Pula/GBP	**15.8405**	14.7667
Pula/Rand	**0.7371**	0.7361
Pula/US Dollar	**11.7509**	10.811
Pula/Euro	**13.3156**	13.263
Inflation rate	**8.7%**	2.2%

44 COVID-19 update

COVID-19 has affected the world at large leading to a halt or decline in business activities due to lockdowns imposed by many countries throughout the world, including Botswana. Following the declaration by the World Health Organization that the novel coronavirus COVID-19 outbreak is a public health emergency, the Botswana government has continuously been putting measures in place in an attempt to control the rate of the spread of infections throughout the country. Contrary to the expectation of 2021, being the year without virus, the virus kept mutating without effective control leading to the infection and deaths which were greater than 2020.

The effects of the COVID-19 pandemic have both directly and indirectly impacted the 2021 financial year. The Board of the Bank re-evaluated the impact of COVID-19 in the 2021 financial year and beyond and decided to carry forward the overlay considering the elongated negative impact on the cash flow over the businesses, banking with FCBB.

The Bank anticipates that the effects of COVID-19 will continue to be felt in the coming three years. The Bank continues to conduct periodic stress tests on its loan assets to assess requisite levels of preparedness, magnitude and potential negative impact. As the pandemic evolves, there is an increased possibility of repayment delays and/or requests to extend loan repayments due to adverse impacts on borrowers' available cash.

The Bank's customers are concentrated in various industry sectors which have been disclosed in note 5 (a) under credit risk. One of the sectors in the Botswana Economy which has been significantly impacted by the COVID-19 pandemic is the tourism industry due to the travel restrictions in various countries. Loans to clients within this sector constitute 0.08% of the Bank's loan book in the current year (0.21% in prior year).

The Bank has estimated the impact the pandemic may have on the performance of its loan book and raised the required impairments. Although there was a drop in fee income in the current year, specifically cash deposit and cash withdrawal fees due to a reduction in customers coming to the bank, the stress tests performed indicate that the Bank will be able to continue as a going concern.

45 Prior period error

The Bank incorrectly classified cash flows from amounts due to other banks of P245 409 418 and cash flows from movement in repurchase agreements of P126 618 167 as investing activities and operating activities cash flows, respectively, in the 31 December 2020 financial statements.

The Bank has corrected this in the current financial period by restating the prior period numbers.

The statement of financial position and statement of profit or loss and other comprehensive income statement were not affected.

Statement of cash flows Year ended 31 December 2020	As previously stated	Movement in amounts due to other banks	Movement in repurchase agreements	As restated
Cash flows from operating activities				
Movement in working capital				
Net movement in amounts due to other banks	–	(245 409 418)	–	(245 409 418)
Net movement in repurchase agreements	–	–	(126 618 167)	(126 618 167)
Net cash from operating activities	410 763 055	(245 409 418)	(126 618 167)	38 735 470
Cash flows from investing activities				
Net movement in repurchase agreements	(126 618 167)	126 618 167	–	–
Net cash (used by)/generated from investing activities	14 441 968	126 618 167	–	141 060 135
Cash flows from financing activities				
Net movement in amounts due to other banks	(245 409 418)	–	245 409 418	–
Net cash financing activities	(268 125 498)	–	245 409 418	(22 716 080)
Total cash movement for the year	157 079 525	–	–	157 079 525
Cash at the beginning of the year	936 746 906	–	–	936 746 906
Effect of changes in exchange rate	14 025 002	–	–	14 025 002
Cash and cash equivalents at end of the year	1 107 851 433	–	–	1 107 851 433

46 Subsequent events

Subsequent to year end, all conditions in relation to the Bank of India (Botswana) Limited transaction were met and the Bank has received a net amount of P3 588 821 (refer to note 6 – Restricted cash).

The Bank has proposed an ordinary dividend of 50.57 thebe per share, total P51 497 438 for the financial year ending 31 December 2021 (2020: P34 862 234).

There are no other events after the reporting date that impact the financial statements for the year under review.

5 CONTACT DETAILS AND OTHER INFORMATION

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