2022 ANNUAL REPORT

First Capital
BANK

Belief Comes First

Click to enter

CONTENTS

Interactive content

Navigation

This report was enhanced with digital navigation capabilities to assist you in moving between sections. You can do so by using the navigation icons at the top of the page or where you see one of these links:

Refers to information available online at **www.firstcapitalbank.co.bw**

Refers to a **page** where more information can be found in this report

Refers to **other sources** of information

Interactive content

3 INTRODUCTION

About this report

This report comprised 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 2022 to 31 December 2022.

Scope and boundary

This report covers material information about the financial, economic, social and environmental performance of First Capital Bank for the financial year ending 31 December 2022. Where applicable and relevant, information after this date and up to the date of Board approval has been included. This report provides insights into matters of importance to our stakeholders, highlighting how the Bank is governed, the material matters we identified and the risks and opportunities that could impact our business in the short, medium and long term.

Reporting principles and frameworks applied

Licenced by the Bank of Botswana according to the provisions of the Banking Act (Cap 46.04, section 4), First Capital Bank is governed by the banking laws of Botswana, which are in place to support financial stability. The content of this report has also been informed by:

- International Financial Reporting Standards (IFRS)
- The Botswana Companies Act, as amended (Companies Act)
- The National Code of Corporate Governance for Mauritius (2016)
- International Integrated Reporting Framework (<IR> Framework) of the IFRS Foundation

Materiality

The report content focuses on matters that materially impact our ability to create and sustain value over the short (up to one year), medium (two to five years) and long term (more than five years). The Bank applies integrated thinking and a pragmatic approach in defining material matters, which is integral to our strategic planning activities. Our determination of materiality in integrated reporting is based on the guidelines of the <IR> Framework. Management is not aware of the unavailability of any reliable information or any legal prohibitions to disclosing any material information.

About this report (continued)

Forward-looking statements

All forward-looking statements are based on beliefs and assumptions relative to information 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 makes no representations or warranty, express or implied, that these forward-looking statements will be achieved, and undue reliance should not be placed on such statements. The Bank undertakes no obligation to update forward-looking statements to reflect subsequently occurring events or circumstances or to reflect unanticipated events or developments. The forward-looking statements in this document are not reviewed and reported on by the Bank's external assurance providers.

Assurance

Deloitte Botswana performed an independent audit of the Bank's annual financial statements and have reviewed this report.

Information contained in the report is derived from the Bank's internal resources and 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 this report's contents, preparation and presentation.

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 14 June 2023. On behalf of the Board,

Hitesh Anadkat
Chairman (outgoing)

Richard Wright
Chairman (incoming)

Reinette van der Merwe
Chief Executive Officer

Feedback on this report

We are committed to improving this report and welcome constructive feedback. Please email your comments to:
customerhelpdesk@firstcapitalbank.co.bw

The annual report and previous annual reports are available for download from our website at
https://firstcapitalbank.co.bw/about/annual-reports/

Who we are

First Capital Bank is a Botswana-based bank providing a full range of services to customers in all major currencies while aiming to achieve the highest customer service standards.

Headquartered in Gaborone, the Bank began commercial operations in May 2008, with two branches in Gaborone, one in Mogoditshane, one in Francistown and one in Maun. In 2018, the Bank expanded into the personal loans market by opening consumer service centres in Gaborone and Francistown and now has six nationwide.

First Capital Bank is affiliated with FMBcapital Holdings Plc (FMBCH Group), based in Mauritius and has banking operations in Malawi, Zambia, Mozambique and Zimbabwe.

At-a-glance

First Capital Bank is a member of the

- Electronic Clearing House
- Real Time Gross Settlement (RTGS) system
- Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Branches	Employees	ATMs[2]	Customers
5	222	7	22 537
2021: 4	2021: 205	2021: 5	2021: 19 046

Assets of	Capital adequacy ratio	Consumer service centre[1]
BWP5.6 billion	19.74%	6
(2021: BWP5.2 billion)	(regulatory requirement 12.5%)	2021: 6

1 Previously called loan centres 2 ATMs: automated teller machines.

Company structure

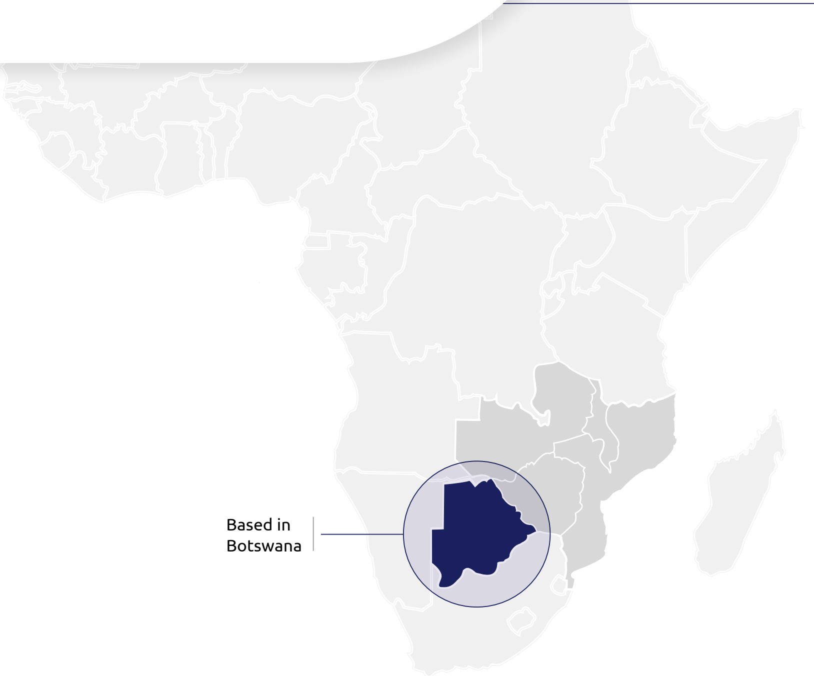
FMBcapital HOLDINGS plc — 38.6%

Other investors — 61.4%

Everglades Holdings (Pty) Ltd	32.96%
Premier Capital (Mauritius) Limited	16.32%
Prime Bank Limited (Kenya)	6.62%
Meeta Anadkat	2.5%
Shaun Anadkat	1%
Sheena Anadkat	1%
Dillon Anadkat	1%

First Capital BANK

Jetwig Enterprises (Pty) Limited t/a First Capital Bank Insurance Agency — 100%



Recognition

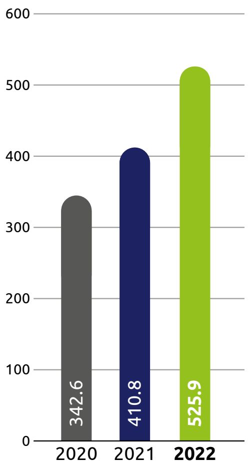
First Capital Bank has been **recognised for its achievements** in 2022 with the following awards:

- **Best Corporate Bank Botswana 2022** by Global Business Magazine
- **Best Corporate Bank Botswana 2022** by World Economic Magazine
- **Best Retail Bank Botswana 2022** by Global Business Magazine
- **Best Commercial Bank Botswana 2022** by Finance Derivative
- **Best Foreign Exchange Provider in Botswana** by Global Finance's G.W. Platt Foreign Exchange Awards 2022

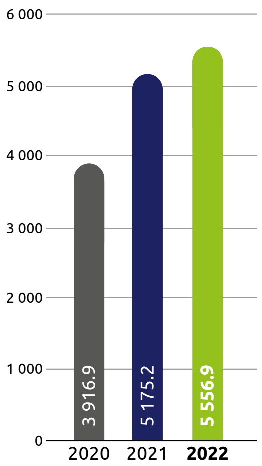
2022 highlights

Our performance indicators are a testament to our drive and ambition to grow, and the singular focus on meeting the needs of our stakeholders.

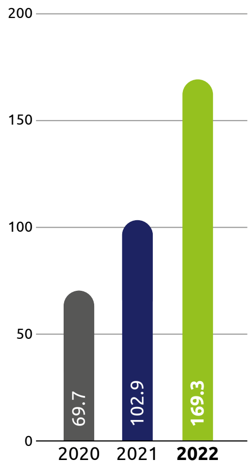
Shareholder funds
(BWP millions)



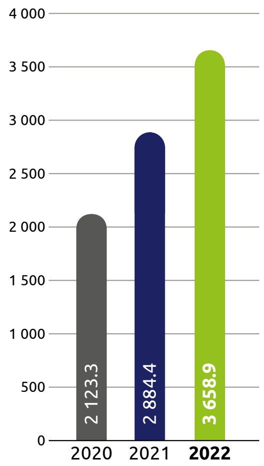
Total assets
(BWP millions)



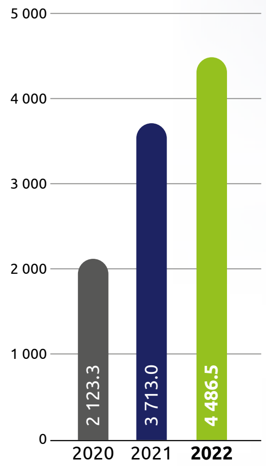
Profit for the year
(BWP millions)



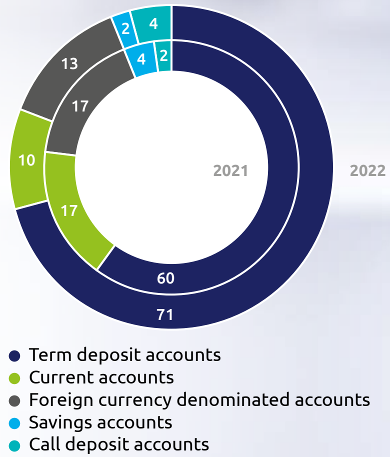
Loans and advances to customers
(BWP millions)



Deposits from customers
(BWP millions)



Deposits from customers
(%)



The Bank's capital adequacy and liquidity ratios exceed the prescribed prudential minimum ratios giving us the capacity to focus on growing our balance sheet.

Growing our footprint

The Bank continues to expand its footprint in line with its strategic journey of belief and growth. On 6 April 2022, the official opening of a new First Capital Bank branch in Boseja Industrial in Maun (Old Mulbridge Complex, Boseja Industrial), was officiated by the Honourable Peggy O. Serame, Minister of Finance and Economic Development.

"Opening a new branch is consistent with the National Financial Inclusion Roadmap and Strategy, which is aimed at improving inclusive growth of the economy, accompanied with improved livelihoods of citizens". – Honourable Peggy O. Serame

The branch was opened to deepen the Bank's relationships with its clients and offers a full range of banking products and services for corporate, retail and SME clients. It supports the Bank's journey, offering access new opportunities in a different area of the country.

Our products and services

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

Retail banking

Transactional accounts
- Current accounts
- Savings accounts
- Foreign currency accounts

Investments
- Fixed deposits
- Call deposits

Electronic banking
- ATMs
- Internet banking
- Mobile banking app

Cards
- Visa debit cards

Loans
- Personal loans
- Overdrafts

Bancassurance
- Credit Life Insurance
- Life Cover Insurance
- Funeral Cover Insurance
- Homeowners Insurance
- Personal All Risk Insurance
- Motor Comprehensive Insurance
- Household Contents Insurance

Payments
- EFT/RTGS

Other services
- E-statements
- Transactional Alerts
- Call centre

We service the needs of retail customers, ranging from first-time account holders to high-net-worth.

Business, corporate and institutional banking

Transactional accounts
- Current accounts
- Foreign currency accounts

Loans and overdrafts
- Overdrafts
- Term loans
- Receivables financing
- Asset finance

Payments and cash management
- Bulk electronic payments
- Cash management services
- Payroll solutions
- RTGS/EFTs

Debit cards
- Visa debit cards

Treasury and foreign exchange
- Foreign exchange services (including foreign currency accounts)
- Letters of credit and guarantees
- Remittances
- Trade Finance

Financing investments
- Investment accounts
- Fixed deposit accounts
- Call accounts

Electronic banking
- ATMs
- Internet banking

Other services
- Relationship managers
- E-statements
- Transaction alerts
- Call centre

Bancassurance
- Property Insurance
- Vehicle Insurance
- Commercial Lines Insurance
- Business All Risk Insurance
- Keyman Insurance

Businesses of all kinds, including sole proprietors, small to medium-sized enterprises (SMEs), large listed corporates, as well as institutional clients like non-governmental organisations (NGOs), embassies and public sector institutions.

Our purpose

Our strategic purpose builds on that of the FMBCH Group and underpins our approach to grow sustainable value for the benefit of all our stakeholders.

Our vision
With our business we generate growth

Our mission
Growth is our business

Our values
Our strong values support our vision and mission with the collective effort of all our employees

Collaboration
We work in teams

We work together for a common purpose to achieve our objectives

Innovation
We are champions of innovation

We encourage thoughtful, creative, and inspirational ideas that will enhance our solutions

Integrity
We are people of integrity

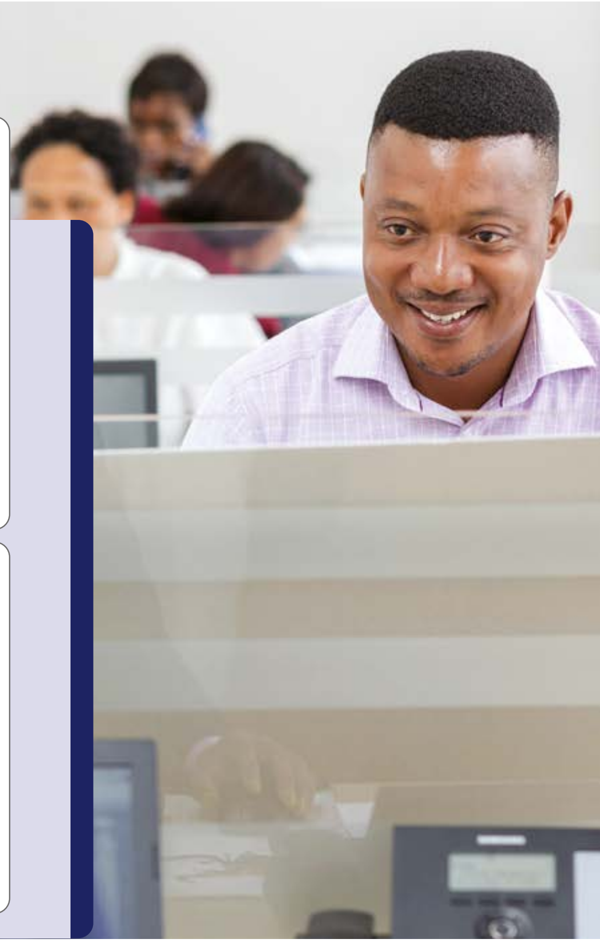
We build trust through strong moral principles, responsible actions, and honest relationships

Citizenship
We strive to be a better citizen

We are mindful of the community we serve and how we can play a role to improve it

Service excellence
We are happy to serve

We are committed to superior customer experience, every time we interact with our stakeholders



Critical success factors

- We are a trusted and respected brand
- Our strategic alliances accelerate our innovation
- Our processes enable service excellence
- We maximise long-term value for our stakeholders
- Our people drive the business

Our value creating business model

First Capital Bank offers a comprehensive range of financial products and services that are both relevant and of value to the different market segments it serves.

	Our capitals and resources	Inputs		Outputs delivered			Outcomes desired
FINANCIAL	The pool of funds supporting business operations, including equity finance and debt	**Total equity: BWP533.0 million** (2021: BWP410.8 million)	**Customer deposits: BWP4 486.48 million** (2021: BWP3 038.5 million)	**Total operating income: BWP428.1 million** (2021: BWP312.2 million)	**Profit after tax: BWP169.3 million** (2021: BWP102.9 million)	**Total assets: BWP5 556.9 million** (2021: BWP5 175.2 million)	A well-capitalised business, delivering sustainable earnings and distribution growth
MANUFACTURED	The facilities and general infrastructure support business operations (tangible assets)	**Branches, agencies, loan and service centres: 11** (2021: 10)	**ATMs: 7** (2021: 5) **IT infrastructure**	**Premises and equipment costs: BWP4.2 million** (2021: BWP3.6 million)	**Information technology costs: BWP11.4 million** (2021: BWP8.7 million)		• Secure and productive working environments • Strategically located branches and electronic banking services offer convenient customer access • Cutting-edge IT platforms offering affordable digital banking solutions
HUMAN	The skills and experience invested in our employees enable us to implement our strategy and deliver our products and services, thereby creating value for stakeholders	**Employees: 222** (2021: 205)	**Experienced people** **Intellectual property**	**Staff costs: BWP82.6 million** (2021: BWP74.6 million)	Graduate development training programme, with 2022 cohort of **5 trainees**		Skilled, experienced and motivated workforce to deliver our strategy. Ongoing staff development and training. A well-organised performance management and labour relations framework that ensures fair remuneration
SOCIAL	The key and long-term relationships cultivated with stakeholders and service providers	**Customers served: 22 537** (2021: 19 046)	**Partnerships with leading financial services brands, including Visa**	**Over BWP1 million corporate social responsibility (CSR) spend**	Launched a **cancer screening programme,** sponsoring over 130 mammograms		Products and services to facilitate financial inclusion across all market sectors for a broad range of society Ongoing community support
INTELLECTUAL	The intangibles that sustain the quality of our product and service offering, which provide a competitive advantage, such as our innovations, systems and reputation	**Intangible assets: BWP3.8 million** (2021: BWP5.5 million) **Strong brand and reputation**	**Strong Internal systems and processes** **Embedded risk management and cyber security**	Wide range of products and services			Full legal and regulatory compliance Efficient, effective delivery of products and services to customers Strategic marketing and brand strategies
NATURAL	The Bank manages its use of natural resources with the same stringency that it manages its use of all other resources.	The Bank does not use specific natural resources in its value creation process.		As a low-impact industry, we pride ourselves on the responsible use of natural resources.			

Engaging with our stakeholders

Our ability to deliver value is dependent on our relationships, the contributions and activities of our stakeholders. By providing for their needs and meeting their expectations, we create value for our stakeholders as well as the Bank.

Our key stakeholders	Their expectations	Our engagement strategy	Our response
Employees **Number of employees:** **222** (2021: 205) We attract, develop and retain high-performing people and reward their contributions fairly and commensurately.	• Great employee experience • Career, learning and development opportunities • Fair remuneration and incentives • Strong leadership who instil trust • Assistance in achieving goals • Safety	• Market-related remuneration • Internal and external training • Pension and medical aid • Developing our people to embrace technological changes, further their careers and improve our services and products	• Onboarding process • Ongoing daily engagements and internal communication at work • Formal and informal meetings as part of the normal conduct of business at all levels • Hosting employee events • Providing relevant training
Customers **Customers served:** **22 537** (2021: 19 046) With increased competition in the financial services sector, customers have more choices. We strive to understand our customers so that we speak to them in a way that is relevant and offer them products that are right for them.	• Efficient, effective delivery of financial products and services from which they can benefit • Convenient and affordable banking solutions for meeting diverse financial needs • A risk-free environment in which to transact • Reliability, trustworthiness and integrity from a financial services provider	• Regular contact with our customers using various touchpoints, including dedicated relationship managers and call centres • Providing a safe branch and electronic banking delivery network • Encouraging a culture of ‘service excellence’ among our employees • Deploying technology to enable efficient product and service delivery • Delivering information and marketing materials through digital and physical communication channels	• We provide a wide range of business banking services to customers • We provide personalised retail banking services for different market segments • Strong liquidity ratios, a conservatively managed balance sheet and strict adherence to the principles of good corporate governance

Engaging with our stakeholders (continued)

Employees | Customers | Shareholders | Government and regulations | Community | Business partners

Our key stakeholders	Their expectations	Our engagement strategy	Our response
Shareholders We engage to build their confidence in us and ensure access to equity and debt funding.	• Consistent financial performance and growth in asset value • Long-term stability • Sound governance • Regular reporting and disclosure	• A conservatively managed balance sheet • Sound business strategies aimed at delivering growth and value • Strong liquidity ratios in all our markets • Strong corporate governance structures	• Publication of Annual Reports
Government and regulators **Bank of Botswana | Tax and revenue authorities** In the highly regulated banking sector, engagement with governments and regulatory authorities builds confidence, deepens trust and enhances brand reputation and ease of doing business.	• Compliance • Capital adequacy and liquidity • Risk and cybercrime management	• Ensure consistent and timely reporting while surpassing reporting standards	• Compliance with various regulatory and prudential requirements • Good corporate citizenship, such as promptly paying taxes • Risk mitigation

Community

Read more about our CSR on **page 22**.

With increased competition in the financial services sector, customers have more choices. We strive to understand our customers so that we speak to them in a way that is relevant and offer them products that are right for them.

Business partners

We engage with business partners to enhance our service offering and products, accelerate our digitisation efforts and ultimately support achieving our strategic objectives.

14 PERFORMANCE AND OUTLOOK

Interactive content

Chairman's message

Hitesh Anadkat *Chairman*

"First Capital Bank continues to demonstrate strong growth and resilience as a multi-award winning financial institution embedded in the financial landscape of Botswana. Being part of the FMBcapital Holdings Group gives the Bank additional assistance through its investment in technology and human resources as well as its regional footprint, while the Bank's well-governed approach and experienced people contribute to long-term, sustainable performance and growth."

Operating context

The year 2022 saw the global economic landscape undergo a significant transformation, transitioning from a phase of post-pandemic hopefulness to encountering a fresh set of obstacles. The Russia-Ukraine conflict introduced limitations on the availability of some essential commodities due to the implementation of sanctions by Western nations. Furthermore, the ongoing geopolitical tensions between China and the United States continued to disrupt global supply chains, consequently fueling an upward spiral of inflation and interest rates. Concurrently, complications arising from the alignment of assets and liabilities resulted in the collapse of Silicon Valley Bank and Signature Bank in the United States, while Credit Suisse was rescued by its rival UBS, thereby adding to the multifaceted challenges encountered by the global banking sector.

In Botswana, gross domestic product (GDP) growth for 2022 was 5.8%, down from 11.8% in 2021, with a 2022 annual inflation rate of 12.4%. Banking competition remains high, however, First Capital Bank Botswana is well-positioned for growth and continues to be recognised as one of the best banks in the country through various awards.

Performance overview

The Bank continues to deliver record profit after tax of BWP169 million for the year, up from BWP103 million in 2021. This demonstrates the resilience of the Bank as it maintained its unique track record in Botswana of profitability every year since its establishment in 2008.

The Bank's total assets increased by 7%, attributed to substantial growth in the loan book, repurchase agreements and shareholder funds. Overall, loans and advances grew by 27%.

The good performance for 2022 can be attributable to good growth in income. Although costs were closely managed, operating expenses increased due to opening new branches and adequately resourcing the development of the business.

The Bank remains well-capitalised, with liquidity ratios maintained at a stable financial position in 2022 and exceeding the regulatory requirements: The Liquid Asset Ratio (LAR) was 20.83% (regulatory requirement: 10%), and the Capital Adequacy Ratio (CAR) was 19.34% (regulatory requirement: 12.5%).

Chairman's message (continued)

Outlook

According to the latest projections, the global economy is anticipated to experience a significant deceleration in 2023. This slowdown can be attributed to the persistent repercussions stemming from the conflict in Ukraine, various geopolitical tensions, elevated levels of inflation, and the upward trajectory of interest rates.

However, Botswana has prudent macroeconomic policies in place and robust economic institutions, which have contributed to a long period of positive economic growth, and the World Bank projects economic growth to moderate to about 4.0% in 2023. Banking competition remains high, however, First Capital Bank Botswana is well-positioned for growth and continues to be recognised as one of the best banks in the country through various awards.

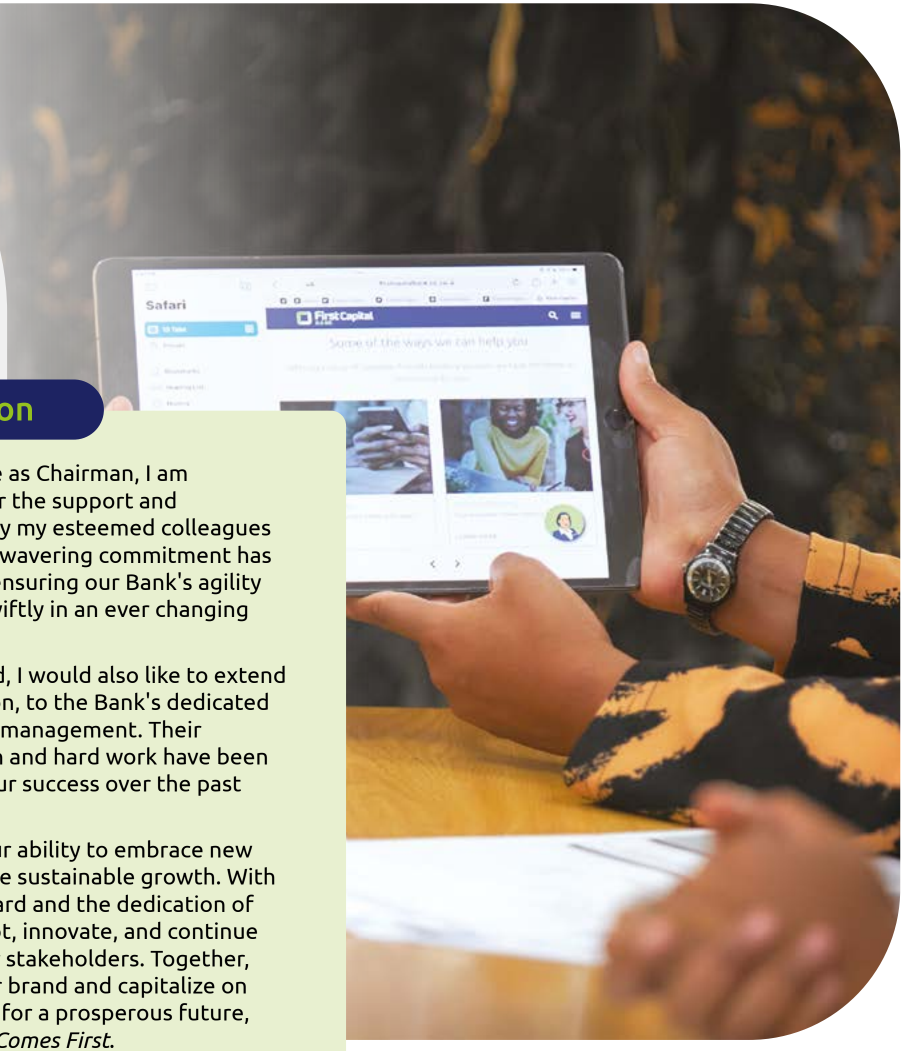
Governance matters

Our Board comprises a broad mix of seasoned professionals and shareholder representatives in compliance with the relevant Botswana and Group corporate governance requirements.

The Board actively supports the Bank's strategic efforts to remain agile, competitive and responsive to the needs of our customers while delivering sustainable returns to all stakeholders.

In May 2022, Mr. Leutlwetse Tumelo joined our Board. In March 2023, Messrs Daniel Swabi and Mr. Stephen Pezarro stepped down from the Board due to tenure restrictions imposed by the 'Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by Bank of Botswana'. We express our gratitude for their valuable contributions during their tenure and extend our best wishes for their future endeavors.

Adhering to the aforementioned guidelines, I will be stepping down from my role as Chairman of the Board at the end of 2022 while continuing to serve as a member of the Board. I am pleased to announce that Mr. Richard Wright will assume the position of Chairman of the Bank, ensuring a smooth transition of leadership.



Appreciation

Throughout my tenure as Chairman, I am immensely grateful for the support and experience provided by my esteemed colleagues on the Board. Their unwavering commitment has been instrumental in ensuring our Bank's agility and ability to adapt swiftly in an ever changing business landscape.

On behalf of the board, I would also like to extend my sincere appreciation, to the Bank's dedicated employees and senior management. Their unwavering dedication and hard work have been invaluable in driving our success over the past year.

We are confident in our ability to embrace new opportunities and drive sustainable growth. With the support of our Board and the dedication of our team, we will adapt, innovate, and continue to create value for our stakeholders. Together, we will strengthen our brand and capitalize on emerging possibilities for a prosperous future, because for us, *Belief Comes First*.

Hitesh Anadkat
Chairman

Chief Executive Officer's review

Reinette Van Der Merwe
Chief Executive Officer

"The 2022 results are a testament to the efforts of the Bank's people to deliver its strategy and build a trusted and respected brand with deep customer relationships."

Operational highlights

We expanded our footprint with a fifth branch situated in Maun and a sixth Consumer Service Centre in Molepolole. Post the COVID-19 pandemic, the Bank endeavoured to stay connected to its key customers and stakeholders. This included a renewed focus on personalised customer service, stakeholder engagements, participating in golf tournaments, youth mentorship initiatives and consistent two-way communication with clients.

The International Monetary Fund (IMF) reported that global output contracted in the second quarter of 2022 owing to downturns in China and Russia. This affected most economies across the globe. Botswana also felt the effects; with 6.4% GDP down from 11.8% in 2021.

In the regulatory environment, the Minister of Finance unveiled inflation relief measures for a period of six months, effective 1 August 2022. This included reducing the Value Added Tax (VAT) rate from 14% to 12% and zero-rating essential commodities for VAT.

The year also saw capital, liquidity and macroeconomic pressures emerging as key business risks. These risks resulted in lending being constrained and inflation at its highest (14.5% in August 2022). In the financial sector, banks were more competitive to maintain both market share and profitability. Competition from microlenders is expected to increase in the consumer lending segment, with a risk of downward pressure on interest rates.

Testament to our ongoing focus on customer service, the Bank received several awards:

Best Corporate Bank Botswana 2022
by Global Business Magazine

Best Corporate Bank Botswana 2022
by World Economic Magazine

Best Retail Bank Botswana 2022
by Global Business Magazine

Best Commercial Bank Botswana 2022
by Finance Derivative

Best Foreign Exchange Provider in Botswana
by Global Finance's G.W. Platt Foreign Exchange Awards 2022.

Performance

First Capital Bank performed strongly and continued to grow in 2022, delivering a significantly higher interest income and net profit after tax. We delivered net profit after tax of BWP169 million (2021: BWP102.99 million).

The Bank's total assets increased by 7% to BWP5.56 billion (2021: BWP5.18 billion). This balance sheet growth can be attributed to substantial growth in our loan book, repurchase agreements and shareholder funds. Overall, loans and advances grew by 27%.

Net interest income increased by 39%, driven largely by 43% growth in our loans in the consumer lending segment. We attribute this to an aggressive sales strategy, opening of additional pay points and successful marketing campaigns. Consumer lending ensured that the collection and recovery rates were at acceptable levels, with non-performing loans (NPL) below 1%.

Non-interest income, excluding forex income, grew by 63%, while forex income increased by 15%, mainly due to increased volumes in the Bank's foreign exchange services. The good performance for the financial year ended 2022 can be attributable to good growth in income. The increase in operating costs was due to the opening of new branches and adequately resourcing the growth of the business.

Our cost-cutting measures and increased interest income saw a reduction in our cost-to-income ratio to 45% (2021: 47.4%).

Liquidity and capital adequacy ratios

Ratios were maintained at a stable financial position in 2022, and we continue to exceed the regulatory requirements: The Liquid Asset Ratio (LAR) was 20.83% (regulatory requirement: 10%), and the Capital Adequacy Ratio (CAR) was 19.34% (regulatory requirement: 12.5%). Our ratio of Tier 1 capital to total risk-weighted assets amounted to 13.50% (regulatory requirement: 7.5%).

Performance against our strategic success factors

First Capital Bank continued to review its strategy in line with these developments and ensured consistent implementation of thereof. The Bank strives to successfully implement all key and critical projects around technology and products. The 2022 financial results are a testament to the Bank's efforts to build a trusted and respected brand that is renowned for its personalised service and quick turnaround times and become the bank of choice for the transacting public in Botswana.

Corporate citizenship

As a responsible corporate citizen of Botswana, we support the communities around our operations. We support various projects in the health, education, and sports sectors and have invested in a range of environmental projects. In 2022, the Bank launched the First Capital Bank Cancer Screening Program, where the Bank joined forces with an NGO and two medical partners, to take breast cancer screening all over Botswana using mobile mammography units. The Bank also sponsored over 130 mammograms. Our employees are always encouraged to launch practical initiatives and participate in community projects. In 2022, we spent over BWP1 million in our corporate social investment.

Outlook

The positive results in 2022 set a solid base for our 2023 growth strategy, and the Bank's focus on being a trusted and respected brand in Botswana continues to be a key focus.

While the country and the world at large are still facing several global economic headwinds, we are committed to providing relevant products and services that will help our clients achieve their personal and/or business needs.

We remain focused on growing our transactional corporate and commercial customer base and anticipate continued growth of the loan book, specifically in retail lending. The Bank is poised to maintain its growth trajectory by relying on our revamped technological infrastructure, which will support our digital platforms, thereby ensuring that we continue to deliver sustainable results. Plans are currently in place to introduce convenient and exciting new products to our customers, which will ensure that we continue to be innovative while allowing our customers to focusing on what is important to improve their lives.

With thanks

I would like to express my gratitude to all our stakeholders for their contribution to a successful year, the support of our stakeholders, and the ongoing efforts of our people.

Together, we embody the success from 'Belief Comes First'.

Reinette Van Der Merwe
Chief Executive Officer

Chief Financial Officer's report

Rorisang Modikana
Acting Head of Finance

"First Capital Bank continues to deliver strong financial results and remains well capitalised with a healthy balance sheet that will support long-term, sustainable performance and growth."

Operating context

The global economic environment remained uncertain, reflecting geopolitical pressures, financial sector turmoil, high inflation and the ongoing effects of Russia's invasion of Ukraine. Global GDP was 3.4% for 2022 according to the IMF, and is expected to decline to around 3% for the next two years.

Botswana maintains a conservative fiscal policy and lower levels of foreign debt. GDP growth for 2022 of 5.8% was largely driven by diamond exports and domestic demand. Inflation of over 12% continued to reflect a broad-based increase in consumer goods and services as well as domestic fuel prices, taking it well above the Bank of Botswana's target range of 3% – 6%. Inflation relief measures, including the reduction in the VAT rate, were introduced during the year.

The Bank continues to operate in an environment marked by increasing competition as the financial sector aimed to maintain market share and profitability. Lending remained constrained as increased competition drove downward pressure on interest rates.

Performance overview

The Bank continued to deliver strong growth with profit after tax of BWP169 million for the year, up from BWP103 million in 2021. Net interest income increased by 39%, driven largely by 43% growth in our loans in the consumer lending segment and non-performing loans (NPLs) below 1%, supporting the 37% reduction in net impairment losses. Non-interest income, excluding forex income grew by 63% while forex income increased by 15%.

The 30% increase in operating expenses was mainly due to opening new branches and adequately resourcing the development of the business. Our cost-to-income ratio reduced to 45.03% from 47.4% in 2021 as cost management continues to be an area of focus.

Total assets increased by 7% to BWP5.6 billion (2021: P5.2 billion), due to substantial growth in the loan book, repurchase agreements and shareholder funds. Loans and advances grew by 27%. Customer deposits were up 21%.

The Bank remains well-capitalised, with liquidity ratios maintained at a stable financial position in 2022 and exceeding the regulatory requirements: The Liquid Asset Ratio (LAR) was 20.83% (regulatory requirement: 10%), and the Capital Adequacy Ratio (CAR) was 19.34% (regulatory requirement: 12.5%).

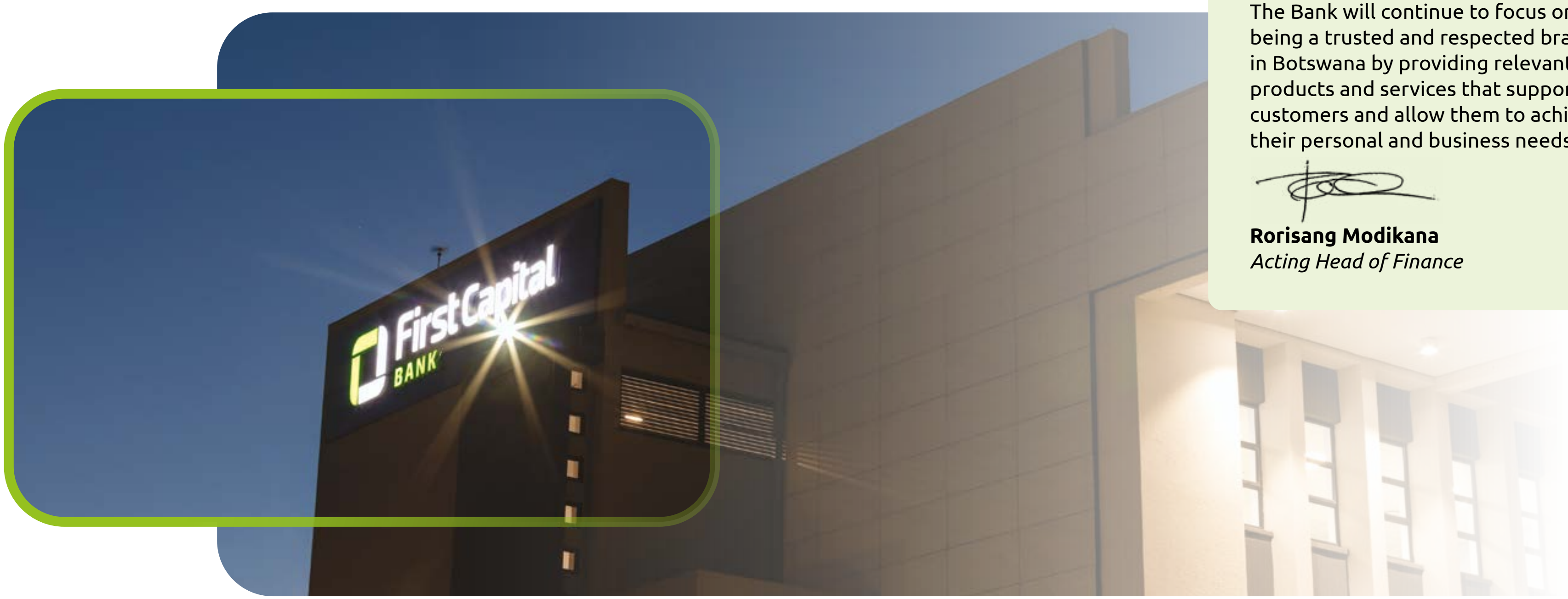
Chief Financial Officer's report (continued)

Key indicators

Amounts in P'000	2018	2019	2020	2021	2022 (Group)
Net interest income	98 282	144 616	202 385	252 240	**349 876**
Non-interest income	53 610	56 676	63 206	59 926	**78 214**
Operating expenses	98 948	120 596	140 318	147 874	**192 779**
Profit after tax	32 944	47 973	69 724	102 994	**169 313**
Customer deposits	2 482 246	2 561 974	3 038 484	3 713 004	**4 486 476**
Total assets	2 880 502	3 633 463	3 916 925	5 175 170	**5 556 277**
Loans and advances	1 579 852	1 961 395	2 123 331	2 884 406	**3 658 944**
Shareholder funds	196 059	294 032	342 630	410 762	**533 035**

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Refer to the annual financial statements on **pages 45 to 112** for more detail.



Looking ahead

Ongoing pressures are expected to slow global growth to about 4.0% in 2023, with Botswana's GDP expected to be 3.7%. The competitive environment is expected to continue to place pressure on businesses. First Capital Bank Botswana remains well-capitalised and is positioned to support ongoing investment in technological infrastructure to support our growth. We will focus on growing our transactional corporate and commercial customer base, as well as our loan book, especially for retail lending.

The Bank will continue to focus on being a trusted and respected brand in Botswana by providing relevant products and services that support our customers and allow them to achieve their personal and business needs.

Rorisang Modikana
Acting Head of Finance

Interactive content

21 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

Our corporate social responsibility activities

We support corporate social responsibility (CSR) programmes in health, education, community development, the environment, the arts, and sports development.

The Bank consciously supports programmes that deliver sustainable outcomes by partnering with relevant stakeholders in each focus area by supporting programmes that deliver sustainable outcomes for the communities in which the Bank operates.

Initiative	Activities	Investment
Botswana		
Global Money Week	For the tenth Annual Global Money Week, we hosted a youth drawing competition under the theme 'Build Your Future, Be Smart About Your Money'. Participants submitted their unique interpretations of the theme. Five winners were selected to attend a financial literacy mentoring session and received cash prizes.	BWP20 000
International Day of The African Child	We partnered with the Learn To Play BW organisation to donate playmats for the five playgroups around Botswana. This gives the children a more comfortable learning experience as the majority of the syllabus is practical and requires them to play on the floor.	BWP6 400
End Pain, End Suffering, End GBV, Together We Can!	We visited the Women Against Rape Organisation to appreciate the important work they do in supporting victims of gender-based violence and gift the women's shelter with food and various cleaning and hygiene necessities as a show of our support.	BWP5 700
Shoebox Project BW	In partnership with the Shoebox Cares Organisation, we had the pleasure of donating new school shoes, toiletry packages and food parcels to the deserving students of Takatokwane Primary School. We also commissioned a mural to keep morale high and remind students and staff about the power of belief.	BWP50 500
Focus On Ability	We gifted the Ithuteng Primary School's special needs students with sensory stimulating materials that benefit the learners by building nerve connections, improving sensory awareness and strengthening core muscles and skills.	BWP30 000
Amogelang, Agang, Afetoleng	We visited Mahupu Unified School in Takatokwane to discuss and educate the school on financial literacy as well as food and clothing to both staff and students.	BWP24 000

Our corporate social responsibility activities (continued)

Initiative	Activities	Investment
Botswana continued		
Blessed Is The Hand That Gives	The Bank donated a geyser and electric stove to the Tshimogolo School to appreciate the great work the staff do in educating and nurturing students with various disabilities from both physical to intellectual.	BWP13 000
Positive Moments HIV/ AIDs Awareness	Our colleagues spent the day with the Positive Moments Support Group to appreciate and recognise the important work the organisation does in raising awareness around living with HIV/AIDs during the COVID-19 pandemic and how sports can be a positive tool in managing life.	BWP10 000
Focus On Growth	Furthering on the success of the International Day of The African Child partnership with Learn To Play NGO, the Bank adopted the Bontleng Playgroup for the third school term of 2022. This financial aid assisted the playgroup to acquiring various supplies needed.	BWP50 000
Journey to Hope	The Bank identified and focused on assisting an underprivileged family of ten in establishing a sustainable income by donating a tuckshop that was also fully stocked, as well as clothes for the family.	BWP43 000
FCB Cancer Prevention Programme	The Bank partnered with Medlane Healthcare and Village Imaging and Journey of Hope Botswana and sponsored 130 mammograms as well as outreach initiatives. Medlane Healthcare and Village Imaging are the first in the country to have mobile mammography units, and with these strategic partnerships we aim to make the medical services accessible to men and women all around Botswana.	BWP350 000
Donations/Sponsorships	• Cape Epic Riding Kit	BWP10 000
	• Tuli block Auction	BWP19 500
	• CTrack Charity Golf Cup	BWP7 500
	• Botho University Charity Golf Cup	BWP13 500
	• African Cyber Security Conference	BWP20 000

Our corporate social responsibility activities (continued)

Living our values

First Capital Bank invests in a Nationwide Breast Cancer Screening Programme

To commemorate Breast Cancer Awareness Month, First Capital Bank Botswana announced their partnerships with Journey of Hope Botswana, Medlane Healthcare & Village Imaging in a nationwide Breast Cancer Screening Programme in October 2022. The Bank donated P335 000 towards the fight against breast cancer.

Breast cancer remains the second most common cause of cancer-related deaths among women in Botswana, largely due to late diagnosis. First Capital Bank has therefore sponsored 130 mammograms to be facilitated by Medlane Healthcare & Village Imaging. The Bank is also contributing P190 000 towards outreach initiatives and donated P25 000 towards the Journey of Hope Big Journey that took place at the end of August 2022.

Speaking at the handover ceremony, Dr. Hajra Mahomed-Tajbhai, First Capital Bank Chief of Staff and Head of Marketing and Communications, expressed that, “We are proud to have partnered with the two medical partners, Medlane Healthcare and Village Imaging, who are the first in the country to have Mobile Mammography Units. With our commitment to invest in and support the communities that we operate in, we found it imperative to make these strategic partnerships so that we can support breast cancer awareness and make the medical services accessible to men and women all around Botswana.”

On behalf of Journey of Hope Botswana, Onica Lekuntwane, Journey of Hope Coordinator, expressed that “It is due to the kind support from First Capital Bank that we were able to reach our target of 2 500 men and women in one week, where we assisted with breast cancer screening and the distribution of educational material during the Big Journey.”

Thapelo Letsholo, Village Imaging Operating Manager, expressed that “For all types of cancer, early detection is the best protection. With the funding received from First Capital Bank, we hope to screen women around the country with our mobile unit that houses both a mammography and ultrasound machine, and bring early detection to the communities around Botswana.”

On accepting the donation on behalf of Medlane Healthcare, Dr. Noorain Lottering, Hospital Superintendent/Medical Director, shared that “Medlane is passionate about making a difference to the lives of Batswana through both medicine and health education empowerment. By taking mammography directly to the people in conjunction with educational sessions we are able to teach Batswana about this disease, identify it early on and seek treatment and thus reduce fatalities. This game-changing collaboration in the fight against breast cancer is not only going to change lives, but save lives.”

> **Our partnership intends to change the already-high statistics, so that more cases are diagnosed earlier when they are cheaper and easier to treat,” said Mahomed-Tajbhai. “We aim to make a difference in the communities we manage and encourage more people to support this critical cause”.**

Our corporate social responsibility activities (continued)

Living our values

First Capital Bank Adopts the Bontleng 'Ithute Go Tshameka' Playgroup

First Capital Bank Botswana has pledged P50 000 to the **'Ithute Go Tshameka – Learn To Play' (LTP) Bontleng playgroup** for the 2022 third term. The donation will cover all required learning resources for the term as well as meals for the 72 children currently enrolled playgroup and follows the donation of 20 play mats to LTP's various playgroups around the country in commemoration of Day of the African Child in June.

LTP was founded in 2017 with the vision to ensure equitable access to high quality early childhood development by harnessing the power of play as a means to facilitate, stimulate and inspire learning while uplifting women's economic opportunities. Since its inception, LTP has established playgroups in five communities around the country focused on children under the age of five. The social impact business ensures sustainable cycles of impact by not only relying on donations but leveraging paid early learning from REWA Little Einstein's – a play-based preschool based in Gaborone – to fund free early learning in various playgroups around the country.

Reinette van der Merwe, First Capital Bank Chief Executive Officer expressed, "Through our engagements with LTP, we noticed the gap and need to support Early Childhood Development, as less than 7% of children under the age of 5 in Botswana have access to early learning opportunities. As believers in the power of growth and a child's right to quality grassroots education, our pledge today speaks to one of the critical success factors in our new group strategy, 'Growth is our Business', in which we intend to continue to support and make impactful contributions to the growth of our communities in which we serve."

Accepting the donation on behalf of Learn to Play, Priyanka Handa Ram, LTP founder, expressed that "Learn To Play is so grateful that First Capital Bank recognises the urgency of investing in holistic early childhood development to break cycles of poverty, crime, and illiteracy. First Capital Bank displays great service and commitment to the children and families of their immediate community here in Bontleng, White City & Newsstands by ensuring continued access to playful learning and nutritious snacks for every child on a daily basis for the rest of the year."

> "As part of our 2022 CSR drive, First Capital Bank colleagues have actively been involved in a number of initiatives across the country including partnerships and engagements with Tshimologo Primary School in Francistown, Ithuteng Primary School here in Gaborone as well as Tatatokwane Primary School and Mahupu Unified Secondary School in the village of Takatokwane."
> Reinette van der Merwe

Corporate governance

First Capital Bank is committed to the highest standards of ethics and corporate governance.

The Board recognises that high ethical standards and good governance are essential to the Bank's ability to ensure the long-term sustainability of the business and create value for stakeholders.

The Board has governance structures and processes in place, within a framework of effective controls, to support its strategic orientation 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 its practices to reflect global developments in corporate governance principles to ensure smooth business operations and drive optimal stakeholder engagements.

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 with rules and regulations; robust risk governance and internal controls; a strong commitment to ethics and values; and 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, whose performance 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

The Board of Directors are the ultimate decision-makers and is 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 the 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.

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 effectively sets and monitors the Bank's policies, objectives and strategies.

The **Board committees** support the Board. These are led by experienced chairpersons who report on committee activities or decisions and make recommendations on matters delegated to them under their respective charters.

The **Chief Executive Officer** is responsible for managing and supervising the Bank's operations and day-to-day administration. He provides leadership and direction to senior management and oversees the implementation of all plans and strategies of the business in line with the policies, guidelines and instructions set by the Board.

The **Company Secretary** is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with, and has primary responsibility for guiding the Board members regarding their duties and responsibilities.

Nomination process

The Board assumes responsibility for succession planning and 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 to ensure that the Board has a diverse mix of competencies, knowledge and experience.

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 evaluates each candidate's knowledge, competencies, experience, time commitment, independence, ethics and values.

Board induction is essential to ensure new Board members can assume their roles and responsibilities and become productive contributors as quickly as possible. New Board members are provided with all the information and support they need to be confident and effective in their roles.

Read about board meetings and attendance in the statement on corporate governance report on **page 40**

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.

Non-executive directors (as at 31 December 2022)

Hitesh Anadkat

Chairman (Non-executive Director)

Appointed 05 October 2005

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

Hitesh worked in corporate finance in the USA, specialising in mergers, acquisitions and valuations before returning to Malawi to establish First Capital Bank (originally FMB Malawi). He holds directorships in five commercial banks (part of FMBcapital Holdings Group) and in other sectors of the Malawi economy. He is Vice-Chairman of Telekom Networks Ltd, a publicly listed mobile phone operating company.

BOARD COMMITTEE MEMBERSHIPS

Hemantkumar (Raj) Patel

Non-executive Director

Appointed 11 May 2005

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

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

BOARD COMMITTEE MEMBERSHIPS

Stephan Pezarro

Independent Non-executive Director

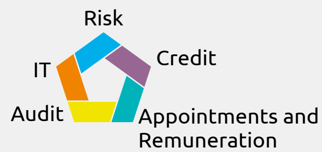
Appointed 05 August 2008

BCompt (Hons) (UNISA), CA

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

BOARD COMMITTEE MEMBERSHIPS

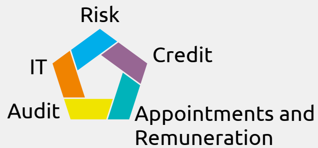
BOARD COMMITTEES



View previous page
View next page

Board of Directors (continued)

BOARD COMMITTEES



Daniel Swabi

Independent Non-executive Director

Appointed 30 July 2012

Bachelor of Law (LLB) (University of Botswana)

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

BOARD COMMITTEE MEMBERSHIPS

Judy Tsonope

Independent Non-executive Director

Appointed 28 September 2015

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

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

BOARD COMMITTEE MEMBERSHIPS

Leutlwetse Tumelo

Independent Non-executive Director

Appointed 12 May 2022

BAcc (University of Botswana)

Leutlwetse is a member of the Botswana Institute of Chartered Accountants and the Institute of Directors of Southern Africa. He has held various leadership roles in both listed and unlisted companies in the capital markets and resources sector. He is currently the Founding and Managing Director of Meriting Conferences.

BOARD COMMITTEE MEMBERSHIPS

Board of Directors (continued)

Richard Wright

Independent Non-executive Director

Appointed 09 July 2019

BCom (Accounting and Business Economics) (UNISA)

Richard 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.

BOARD COMMITTEE MEMBERSHIPS

Shawn Bruwer

Independent Non-executive Director

Appointed 16 November 2020

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

Shawn 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.

BOARD COMMITTEE MEMBERSHIPS

Reinette van der Merwe

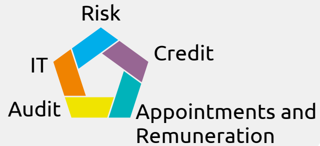
Executive Director – Chief Executive Officer

Appointed 04 January 2021

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

Reinette is a Chartered Accountant and brings 30+ years of financial services experience in international markets and across multiple African countries, covering a number of areas including retail and corporate banking.

BOARD COMMITTEES



View previous page
View next page

Board of Directors (continued)

Other Institutions in which he/she is a Director

Hitesh Anadkat
Chairman Non-Executive Director

- First Capital Bank Malawi (Chairman)
- First Capital Bank Zambia (Director)
- First Capital Bank Zimbabwe (Director)
- FMBcapital Holdings Mauritius (Director)
- First Capital Bank Mozambique (Director)

Daniel Swabi
Non-Executive Director

- Osei-Ofei Swabi & Company

Hemantkumar Patel
Non-Executive Director

- Kgalagadi Plastic Industries (Pty) Ltd Botswana
- Plastech (Pty) Ltd
- Plastic Shop (Pty) Ltd
- Sun Plastics (Pty) Ltd
- Mortiner (Pty) Ltd
- Everglades Holdings(Pty) Ltd
- Mildenhill Estates (Pty) Ltd
- Woppit Development (Pty) Ltd
- Drayton (Pty) Ltd
- Unitrade 920 (Pty) Ltd (SA)
- Afillity Investment (Pty) Ltd (Zambia)
- Polythene Products Z Ltd (Zambia)

Judy Tsonope
Non-Executive Director

- Mopipi Group Holdings (Pty) Ltd
- Something Knew (Pty) Ltd
- Dikgato (Pty) Ltd
- Isago Holdings (Pty) Ltd

Stephen Pezarro
Non-Executive Director

- Transaction Management Services (Pty) Ltd t/a Corpserve Botswana Share Transfer Secretaries
- Carambola (Pty) Ltd
- Limpopo Lipadi Botswana Investment (Pty) Ltd
- Corpserve Holdings (Pty) Ltd (Mauritius)
- Desert Secretarial Services (Pty) Ltd

Richard Wright
Non-Executive Director

- Kwa Nokeng Oil (Pty) Ltd Group of companies (18)

Board of Directors (continued)

Other Institutions in which he/she is a Director

Shawn Bruwer
Non-Executive Director

- Pro Industrial Park Properties Number Four CC
- Link-up Investments (Pty) Ltd
- Palnic Square Investments Five CC (Pty) Ltd
- Palnic Square Investments Fourteen (Pty) Ltd
- The NetCollective (Pty) Ltd
- Paratus Telecommunications (Pty) Ltd
- Hoisting Solutions (Pty) Ltd
- Blumernaus Trading Company (Pty) Ltd
- Lexior Investments (Pty) Ltd

Leutlwetse Tumelo
Non-Executive Director

- Minergy (Pty) Ltd
- Minergy Coal (Pty) Ltd
- Unik Construction (Pty) Ltd
- L& K Farms (Pty) Ltd
- Meriting Conferences (Pty) Ltd
- Herrington (Pty) Ltd

Reinette van der Merwe
Executive Director –
Chief Executive Officer

- Heinvest Consulting (Pty) Ltd
- Agric (Pty) Ltd
- Crest Concepts (Pty) Ltd
- Bridgewood Investments (Pty) Ltd
- San Vest Ventures Option No.2 CC

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. The charters set out each committee's roles, responsibilities, composition and meeting requirements.

Committee	Audit committee	Credit committee	Risk committee	Appointments and remuneration committee	IT committee
Responsibilities	• Assists the Board in evaluating the adequacy and efficiency of the internal control system, accounting practices, information systems and auditing processes applied • Facilitates and promotes communication with Internal Audit • Oversees the preparation of financial statements and reports and ensures their integrity • Oversees compliance with legal and regulatory requirements.	• Ensure the soundness of the Bank's credit portfolio, including advances, guarantees and other facilities. • Specific responsibility includes: – Ratification of terms and conditions of all credit facilities granted – Approval of all credit facilities above discretionary limits set • Review of non-performing assets, recovery procedures initiated and establishment of provisioning as required.	• Assists the Board in relation to assessing, controlling and mitigating business risks. – Identifies risks facing the Bank and recommends controls to the Board.	• Oversees the remuneration decisions in the Bank. • Specific responsibility includes: – Determines the remuneration structures and reviews these annually – Ensures directors receive market-related remuneration, subject to the capacity to pay – Reviews and approves recommendations on the employee remuneration framework and remuneration policy – Evaluates the performance of senior management – Reviews incentive and share option schemes.	• Oversees the technology and innovation strategies and related investments of the Bank and assesses the effectiveness of the Bank's IT-related risk management. • Specific responsibility includes: – Reviewing the Bank's technology strategy and its implementation – Reviewing and making recommendations on proposals for technology investments – Reviewing progress and post-implementation reports for technology projects – Reviewing assessments and reviews of technology-related risk management, governance and related internal control systems and processes.
Composition and meetings	• Comprises three Non-executive Directors, at least two being independent with the necessary skills and experience • Meets quarterly, at least once a quarter.	• Comprises three Non-executive Directors • Meets quarterly, at least once a quarter.	• Comprises three Non-executive Directors • Meets quarterly, at least once a quarter.	• Comprises three Non-executive Directors • Meets quarterly, at least once a quarter.	• Comprises three Non-executive Directors • Meets quarterly, at least once a quarter.

Executive management

The executive team is entrusted with the day-to-day running of the Bank

(as at 31 December 2022)

Reinette van der Merwe

Chief Executive Officer

Master's in finance and marketing (University of North-West), CA(SA)

Andre Potgieter

Chief Commercial Officer

Master's in financial management, Bachelors Agricultural Economics, Honours (Business Management)

Molefe Petros

Chief of Operations and IT

Bachelor of Communication Design/Information Technology, MSc Strategic Management (University of Derby), MDP (University of Stellenbosch)

Thatayaone Nicholas Matlapeng

Country Manager Consumer Lending

Certified Professional Retail Banker (RBA International UK), BA Marketing (University of Botswana), MDP (University of Stellenbosch)

Mani Neb

Head of Treasury

M.Com, PGDFM and MBF (Indian Institute of Finance)

Vijay Kumar

Head of Credit

MBA, Indian Institute of Management, Ahmedabad; Bachelors in Agriculture Science (India)

Goitseone Moshabela

Head of Human Resources

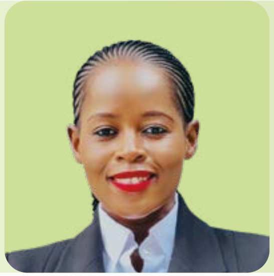
Master's in Public Administration with specialisation in Human Resources Management

Executive management (continued)

Rorisang Modikana

Acting Head of Finance

BCom (University of Botswana), Fellow of Association of Chartered Certified Accountants, Fellow member of Botswana Institute of Chartered Accountants (BICA)



Lebogang Seleke

Head of Operations

Chartered Certified Accountant (ACCA), Associate Certified Professional Accountant (BICA), MSc Professional Accountancy (University of London), SMDP (University of Stellenbosch), BAcc (University of Botswana)

Dr Hajra Mahomed-Tajbhai

Chief of Staff and Head of Marketing & Communications

MBA (UCT Graduate School of Business), BSc Complementary Health Sciences and B. Complementary Medicine (Naturopathy) (University of the Western Cape)

Sandisiwe Dube

Country Risk Manager

Master's in Financial Engineering and Bachelors Actuarial Science (National University of Science and Technology, Zimbabwe)

Mbakiso Masesane

Head of Compliance

Bachelors Economics (University of Botswana), Post-graduate Certificate in Enterprise Risk Management (Botswana Accountancy College), Compliance Management (University of Cape Town), member of Compliance Institute of Southern Africa and Association of Certified Anti-Money Laundering Specialists

One Gosekwang

Acting Head of Internal Audit

BA (Accounting), student member of Institute of Chartered Accountants in England and Wales and BICA, member of Institute of Internal Auditors of Botswana

Letlhogonolo Matlhabe

Head of Legal and Company Secretary

Bachelor of Laws (University of Botswana) and CSSA Professional Post Graduate Qualification; Company secretarial and Governance Practice (Chartered Governance Institute of Southern Africa)

Risk and compliance

First Capital Bank is committed to the highest standards of ethics and corporate governance.

Risk management processes are being established as an integral part of the banking operations across all business operations and segments. The roll-out of a comprehensive Enterprise-Wide Risk Management Framework (EWRMF) has set the Bank on a journey of continuous improvement with a key focus towards sustainability and long-term performance. The EWRMF establishes the focus areas to improve a structured awareness of material risks in an integrated way in all day-to-day operations.

The operating environment within the banking industry continues to grow in challenges. Significant operating environment challenges have been noted emanating from COVID-19 and the impact on supply and value chains across all sectors. The global landscape for operations across all industries significantly shifted into the digital space, suddenly causing the materialisation of an array of digital risks that had until then been considered on the horizon and emerging. These are new vulnerabilities.

The presence of an EWRMF assists in weathering some of the shocks that can impact operations significantly. The governance structure and awareness of risks have enhanced the state of readiness across all our businesses for resilience to deal with new and emerging challenges in the conduct of business.

Risk governance and the three lines of defence

The Bank operates a model with two separate Risk and Compliance functions within the second line of defence. The second line of defence provides for the oversight and control of the enterprise-wide risk management program. The focus on enterprise-wide risk management has seen coordinated enhancements in managing risks and risk events across the business. The active engagement of the second line of defence units has seen increased and proactive focus on risks and their management for a smoother operating environment. The Bank has an independent Internal Audit team fully dedicated to ensuring continuous improvement in the control environment across all operations.

The second and third lines of defence must maintain their independence for the effective operation of the oversight responsibilities. All second line units report to Board Risk Committee, while the third line unit of Internal Audit maintains a direct reporting line to the Board Audit Committee on all operational responsibilities of the function. These governance and accountability structures enhance the robustness and independence of the second and third lines of defence.

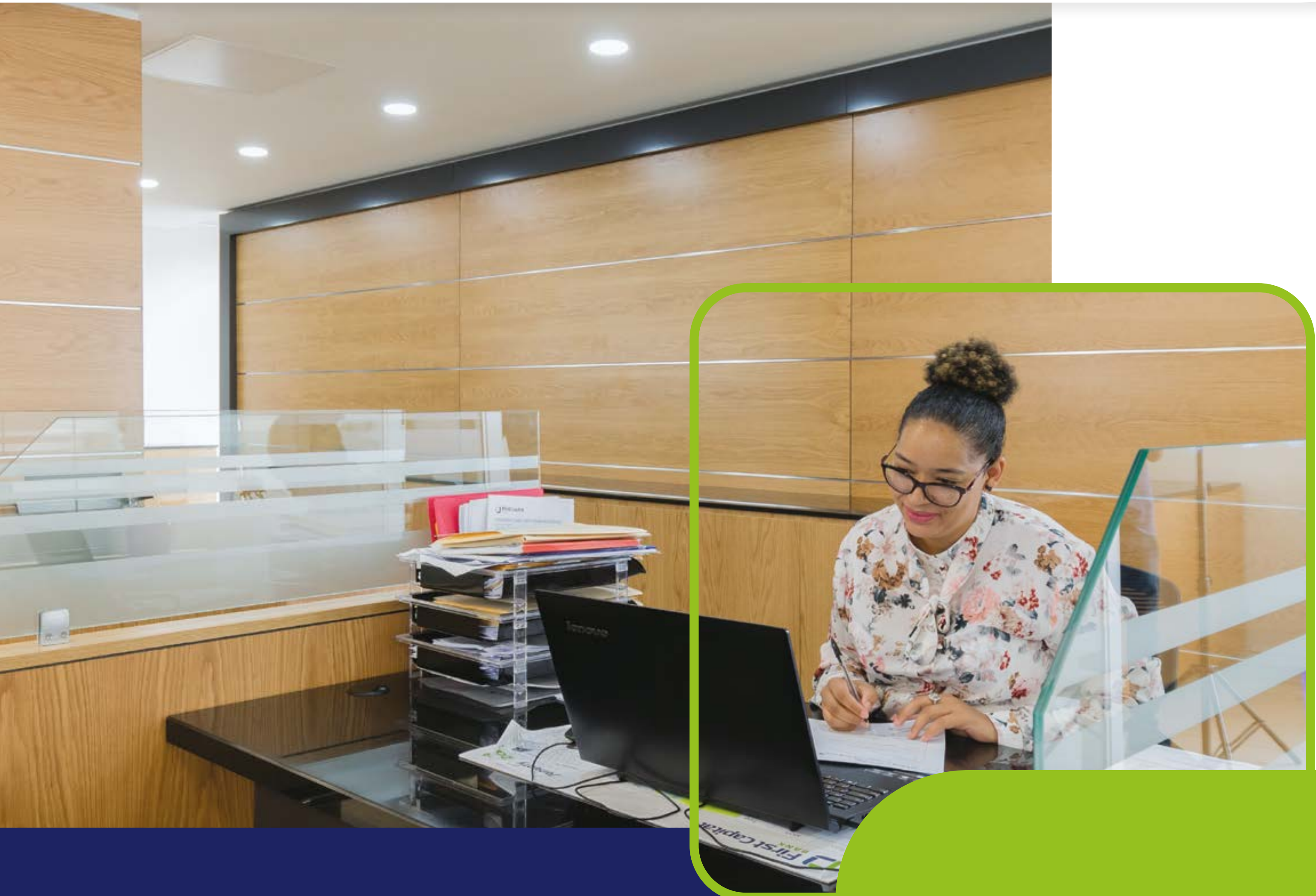
The Bank operates three lines of defence in risk management:

First line of defence	**Management**	The owners and managers of risks
Second line of defence	**Risk and compliance**	Overseers and controllers of risks
Third line of defence	**Internal audit**	Independent assurance

Risk universe

The Bank's risk universe is aligned with that provided by FMBCH Group's risk universe.

More information can be found in the FMBCH Group Integrated report, available at **https://fmbcapitalgroup.com/investor-relations/downloads/**



36 CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

Interactive content

Directors' responsibility statement

The directors of First Capital Bank Limited (the Group or the Company) and its subsidiary (the Group) are responsible for the preparation of the Consolidated and Separate financial statements comprising the statements of financial position at 31 December 2022, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements 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 and in the manner required by the Banking Act (Chapter 46:04) of Botswana.

The directors are also responsible for such internal controls 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 Bank and its subsidiary to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

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

Approval of the annual financial statements

The Consolidated and Separate financial statements as identified in the first paragraph, were approved by the board of directors on 14 April 2023 and signed on their behalf by:

Judy N. Tsonope
Director

Leutlwetse Tumelo
Director

Directors' report

The directors have pleasure in submitting their report together with the Consolidated and Separate financial statements of First Capital Bank Limited for the year ended 31 December 2022.

Business activities

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

Stated capital

Stated capital comprises 101 833 333 (2021: 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 Botswana (Pty) Ltd	32.96%	Dillon Hitesh Anadkat	1.00%
Premier Capital (Mauritius) Limited	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 (2021: 26 132 000).

Directors

Non-executive Directors

Hitesh N. Anadkat (Chairman)
Hemantkumar K. Patel
Daniel Swabi (Resigned 7 March 2023)
Stephen D. Pezarro (Resigned 7 March 2023)
Judy N. Tsonope
Richard C. Wright
Shawn S. Bruwer
Leutlwetse Tumelo (Appointed 12 May 2022)
Moemedi Junior Tafa (Appointed 24 February 2023)
Lynette Elizabeth Armstrong (Appointed 24 February 2023)

Executive Director

Reinette E van der Merwe

Company 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

There were no other material or significant events noted that required to be disclosed or adjusted for in the financial statements.

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, six (6) Non-Executive Directors and one (1) Executive Director, the Chief Executive Officer. An additional Non-Executive director (Mr L Tumelo) joined mid-year thus bringing the total of Non-Executive directors to eight (8) by end of 2022. Of the eight (8) Non-Executive directors, six (6) are independent. The Bank is a subsidiary of a Mauritius domiciled holding company and is compliant with the National Code of Corporate Governance for Mauritius (2016).

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.

Board Meetings Attendance 2022:

Member	1 Mar 22	16 June 22	20 Sept 22	6 Dec 22
Mr. HN Anadkat – Chairman	√	√	√	√
Mr. HK Patel	√	√	√	√
Mr. SD Pezarro	√	X	√	√
Mr. D Swabi	√	√	√	√
Mrs. JN Tsonope	√	√	√	√
Mr. RC Wright	√	√	√	√
Mr. SS Bruwer	X	√	√	√
Mr. L Tumelo	N/A	√	√	√
Mrs. RE van der Merwe	√	√	√	√

Key
√ = Attended
x = Apology
N/A=Not Applicable

Board sub-committees that the directors served on are as follows:

Audit committee	Credit Committee	Risk Committee	Appointments and Remuneration Committee	IT Committee
1. Mr. SD Pezarro (Chairperson)	1. Mr. HK Patel (Chairperson)	1. Mr. RC Wright (Chairperson)	1. Mr. D Swabi (Chairperson)	1. Mr. SS Bruwer (Chairperson)
2. Mrs. JN Tsonope	2. Mr. D Swabi	2. Mr. SS Bruwer	2. Mr. HN Anadkat	2. Mr. RC Wright
3. Mr. L Tumelo	3. Mr. SS Bruwer	3. Mr. HK Patel	3. Mr. RC Wright	3. Mr. HK Patel

Directors' shareholdings/interests:

1. Mr. H.N Anadkat owns 33.20% of the Bank's ultimate beneficial ownership, primarily through Premier Capital (Mauritius) Limited which has shareholding in the Bank and in one of the bank's major shareholders being FMBcapital Holdings Plc (Mauritius).
2. Mr. H.K Patel owns 32.96% of the Bank's ultimate beneficial ownership through his interest in Everglades Botswana Proprietary Limited.

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) Non-Executive Director, Judy Tsonope retired by rotation in June 2022 and was re-elected.

(ii) Non-Executive Director, Mr L Tumelo was appointed to the board on the 12 May 2022.

Independent auditors report

To the shareholders of First Capital Bank limited

Opinion

We have audited the consolidated and separate financial statements ('the financial statements') of First Capital Bank Limited ('the Company') and its subsidiary ('the Group'), set out on **pages 45 to 112**, which comprise the consolidated and separate statements of financial position as at 31 December 2022, the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and Company as at 31 December 2022, and their consolidated and separate financial performance and consolidated and separate 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 consolidated and separate financial statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditors report (continued)

Key Audit Matter	How the matter was addressed in the audit

Impairment of loans and advances to customers (consolidated and separate)

Key Audit Matter

The Group's core business is to provide loans and advances to individual (retail) and corporate customers which form a significant portion of the Group'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 Group and the significant 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.

How the matter was addressed in the audit

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 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 (IFRS 9).
- 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 adjustment 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.

Independent auditors report (continued)

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Responsibility Statement and Directors' Report which we obtained prior to the date of this auditor's report as well as the Annual Report including the Statement of Corporate Governance which will be made available after the date of our independent auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 Consolidated and Separate Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate 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 Group/ and or the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Independent auditors report (continued)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

- 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 Group's and 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 Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 consolidated and separate 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

Deloitte & Touche
Firm of Certified Auditors
Practicing Member: Pragnaben Naik (CAP 007 2023)

14 April 2023
Gaborone

Statements of financial position

as at 31 December 2022

Amounts in Pula	Note	Group 2022	Company 2022	Company 2021
ASSETS				
Cash and cash equivalents	6	1 489 385 521	1 489 385 521	1 223 765 387
Investment securities	7	147 560 498	147 560 498	251 990 912
Repurchase agreements	8	113 278 612	113 278 612	689 803 566
Investment in subsidiary company	42	–	1 000 000	30 000
Loans and advances to customers	9	3 658 943 806	3 658 943 806	2 884 406 349
Other assets	10	62 055 552	61 700 355	47 309 534
Property, equipment, and intangible assets	11	77 866 553	77 866 553	71 998 743
Right-of-use assets	12	7 184 878	7 184 878	1 511 331
Current tax assets		–	–	4 354 752
Deferred tax assets		1 601	–	–
Total assets		**5 556 277 021**	**5 556 920 223**	5 175 170 574
LIABILITIES				
Deposits from customers	13	4 486 475 859	4 495 307 483	3 713 004 433
Balances due to other banks	14	240 593 469	240 593 469	769 682 463
Lease liabilities	15	7 811 713	7 811 713	2 479 674
Other liabilities	16	87 051 490	86 915 829	56 973 191
Current tax liabilities		4 506 147	3 615 503	–
Deferred tax liabilities	17	11 913 537	11 913 537	7 992 467
Subordinated debt	18	158 757 521	158 757 521	188 143 561
Preference shares	19	26 132 000	26 132 000	26 132 000
Total liabilities		**5 023 241 736**	**5 031 047 055**	4 764 407 789
EQUITY				
Stated capital	20	140 000 000	140 000 000	140 000 000
Property revaluation reserve	11	4 932 535	4 932 535	3 006 111
Credit loss reserve	21	15 289 391	15 289 391	15 289 391
Retained earnings		372 813 359	365 651 242	252 467 283
Total equity		**533 035 285**	**525 873 168**	410 762 785
Total liabilities and equity		**5 556 277 021**	**5 556 920 223**	5 175 170 574

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2022

Amounts in Pula	Note	Group 2022	Company 2022	Company 2021
Interest income	22	530 591 506	530 591 506	362 862 465
Interest expense	23	(180 715 537)	(180 715 537)	(110 621 867)
Net interest income		349 875 969	349 875 969	252 240 598
Net fees and commission income	24	27 007 562	20 622 377	18 666 418
Gain on foreign exchange transactions	25	46 703 997	46 703 997	40 557 005
Other operating income	26	4 502 649	5 081 436	702 890
Non-interest income		78 214 208	72 407 810	59 926 313
Total operating income		428 090 177	422 283 779	312 166 911
Staff costs	27	(82 622 268)	(82 622 268)	(74 586 956)
Premises and equipment costs	28	(4 204 162)	(4 204 162)	(3 609 110)
Information technology costs	29	(11 358 482)	(11 358 482)	(8 740 272)
Depreciation and amortisation	11&12	(11 530 316)	(11 530 316)	(10 648 709)
Administration and general expenses	30	(58 010 318)	(58 138 028)	(32 221 660)
Shared services costs		(25 053 433)	(25 053 433)	(18 067 563)
Total operating expenses		(192 778 979)	(192 906 689)	(147 874 270)
Profit before impairment losses on financial assets		235 311 198	229 377 090	164 292 641
Net impairment losses on financial assets	31	(17 947 719)	(17 947 719)	(28 385 565)
Profit before income tax expense		217 363 479	211 429 371	135 907 076
Income tax expense	32	(48 050 276)	(46 747 974)	(32 912 201)
Profit for the year		169 313 203	164 681 397	102 994 875
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Revaluation surplus on fixed assets	11	2 469 774	2 469 774	–
Deferred tax on revaluation of property	11	(543 350)	(543 350)	–
Total other comprehensive income for the year		1 926 424	1 926 424	–
Total comprehensive income for the year		171 239 627	166 607 821	102 994 875
Basic earnings per share in Pula	33	1.6627	1.6172	1.0114

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Statements of changes in equity

for the year ended 31 December 2022

Group

Amounts in Pula	Stated capital	Property revaluation reserve	Credit loss reserve	Retained earnings	Total equity
Balances at 1 January 2022 – Company	140 000 000	3 006 111	15 289 391	252 467 283	410 762 785
Retained earnings of subsidiary company at 1 January 2022 (Note 41)	–	–	–	2 530 311	2 530 311
Consolidated balances at 1 January 2022	140 000 000	3 006 111	15 289 391	254 997 594	413 293 096
Profit for the year	–	–	–	169 313 203	169 313 203
Other comprehensive income					
Revaluation surplus on buildings, net of tax	–	1 926 424	–	–	1 926 424
Transactions with owners of the Bank					
Dividends paid	–	–	–	(51 497 438)	(51 497 438)
Balance at 31 December 2022	140 000 000	4 932 535	15 289 391	372 813 359	533 035 285

Company

Amounts in Pula	Stated capital	Property revaluation reserve	Credit loss reserve	Retained earnings	Total equity
Balance at 1 January 2021	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					
Dividends paid	–	–	–	(34 862 234)	(34 862 234)
Balance at 31 December 2021	140 000 000	3 006 111	15 289 391	252 467 283	410 762 785
Profit for the year	–	–	–	164 681 397	164 681 397
Other comprehensive income					
Revaluation surplus on buildings, net of tax	–	1 926 424	–	–	1 926 424
Transactions with owners of the Bank					
Dividends paid	–	–	–	(51 497 438)	(51 497 438)
Balance at 31 December 2022	140 000 000	4 932 535	15 289 391	365 651 242	525 873 168

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Statements of cash flows

for the year ended 31 December 2022

Amounts in Pula	Note	Group 2022	Company 2022	Company 2021
Cash flows from operating activities				
Interest and non–interest income	34	**609 028 452**	**603 222 054**	424 002 559
Interest paid	35	**(137 136 388)**	**(137 136 388)**	(105 002 583)
Cash paid to suppliers and employees	36	**(157 169 851)**	**(157 978 457)**	(180 702 260)
Income taxes paid		**(36 417 241)**	**(35 400 000)**	(30 965 210)
		278 304 972	**272 707 209**	107 332 506
Net movement in loans and advances to customers	37	**(788 941 415)**	**(788 941 415)**	(786 274 398)
Net movement in deposit balances	37	**730 664 657**	**739 496 281**	669 521 772
Net movement in repurchase agreements		**575 657 356**	**575 657 356**	(404 287 094)
Net movement in balances due to other banks		**(529 088 994)**	**(529 088 994)**	492 697 427
Net cash generated from operating activities		**266 596 576**	**269 830 437**	78 990 213
Cash flows from investing activities				
Disposal of investment securities		**104 338 075**	**104 338 075**	45 321 476
Subscription of shares in subsidiary company		**–**	**(970 000)**	(29 900)
Acquisition of property, equipment, and intangible assets	11	**(12 621 871)**	**(12 621 871)**	(4 219 730)
Proceeds from sale of equipment		**60 600**	**60 600**	–
Net cash generated from investing activities		**91 776 804**	**90 806 804**	41 071 846
Cash flows to financing activities				
Dividends paid		**(51 497 438)**	**(51 497 438)**	(34 862 234)
Repayment of finance lease liability		**(2 562 473)**	**(2 562 473)**	(2 038 893)
Interest on lease liability		**(579 004)**	**(579 004)**	(401 297)
Repayment of borrowings		**(30 000 000)**	**(30 000 000)**	–
Net cash used in financing activities		**(84 638 915)**	**(84 638 915)**	(37 302 424)
Net increase in cash and cash equivalents		**273 734 465**	**275 998 326**	82 759 635
Cash and cash equivalents at beginning of the year		**1 226 029 248**	**1 223 765 387**	1 107 851 433
Effect of changes in exchange rates		**(10 378 192)**	**(10 378 192)**	33 154 319
Cash and cash equivalents at end of the year	6	**1 489 385 521**	**1 489 385 521**	1 223 765 387

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Notes to the financial statements
for the year ended 31 December 2022

1 Reporting entity

First Capital Bank Limited 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).

These consolidated financial statements comprise the statutory financial statements of First Capital Bank Limited (the Group or the Company) and its subsidiary (collectively referred to as "the Group").

The Group has prepared consolidated financial statements for the first time for the financial year ended 31 December 2022 consequently no comparatives have been presented – refer to Note 41.

The Group is primarily involved in commercial banking and has one operating subsidiary which comprises of an insurance agency.

2 Basis of preparation

(i) Statement of compliance

The financial statements have been prepared on a going concern basis and in all material respects, 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.

Notes to the financial statements *(continued)*

(v) Consolidated financial statements

Basis of consolidation

The consolidated and separate financial statements incorporate the consolidated and separate financial statements of the company and all subsidiaries. Subsidiaries are entities which are controlled by the Group. Typical shareholding in the assessment of entities is based on a shareholding of 50% and above. The Group measures investments in these entities in its separate financial statements at cost less impairment.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interest

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Changes in the Group's interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Goodwill

Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred, and is recognised as an intangible asset at cost less accumulated impairment losses. If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in other non-interest income. Goodwill is tested annually for impairment by the Group. For testing purposes, goodwill is allocated to a suitable cash-generating unit (CGU). Impairment losses in respect of goodwill are not subsequently reversed.

Related party transactions

Related parties of the Group, as defined, include:

- subsidiaries of the Group and entities that have significant influence over the Group; and
- key management personnel (KMP), entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

Key management personnel of the Group are the First Capital Bank Limited board of Directors and prescribed officers, including those of any entities which provide key management personnel services to the Group.

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 2022:

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 Board).

COVID-19-Related Rent Concessions beyond 30 June 2021 (the 2021 amendment) was 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 amendment did not have a material impact on the Group and company'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 International Accounting Standards Board, 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 did not have a material impact on the Group and company's financial statements.

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 did not have a material impact on the Group and company's financial statements.

Annual Improvements to IFRS Standards 2018-2020

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2018-2020 Cycle, none of which had a material impact on the Group and company'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.

3 New standards and interpretations (continued)

3.1 New standards and interpretations which became effective during the year (continued)

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 did not have a material impact on the Group and company's financial statements.

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 2022:

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 not expected to have any impact on the Group and company'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 Board 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 not expected to have any impact on the Group and company’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 not expected to have any impact on the Group and company’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)

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes (continued)

The Group 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. The amendment is not expected to have any impact on the Group and company's financial statements.

IFRS 17: Insurance Contracts (and its related amendments)

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 Group and company's financial statements.

Lease Liability in a sale and Leaseback (Amendments to IFRS 16)

Amendments to IFRS 16 Leases requires a seller-lessee impacts how a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendment also requires the seller-lessee to include variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The standard is not expected to have any impact on the Group and company's financial statements.

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments.

Notes to the financial statements *(continued)*

4 Significant accounting policies

(a) The accounting policies applied by the Group are consistent with those used in the previous year except for the effect of the consolidation of the subsidiary disclosed in Note 41.

(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) Fair value through other comprehensive income (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:

1) Amortised cost;

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

3) Fair value through other comprehensive income (FVOCI)– equity investments; or

4) Fair value through profit and loss (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 at 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)

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 fair value through profit and loss. Transaction costs for financial assets and liabilities measured at fair value through profit and loss are expensed in profit and loss.

Impairment of financial assets

The Group classifies and measures 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 Group 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; and
- Stage 3 – If the asset is credit impaired it is moved to Stage 3.

Expected Credit Losses (ECLs) 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 Group uses a combination of a portfolio-based approach and individual assessment to the calculation of ECLs.
- Portfolio assessment is performed by way of the ECL Model to support the modelling of probability of default, loss given default and exposure at default.
- Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Expected Credit Losses (ECLs) 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 IFRS 9 model. Retail loans not in Finacle are also segregated in the IFRS 9 model.

Benchmarking ECL

Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS 9 model ("the ECL Model) developed in consultation with external consultants supported by available historic information to support the modelling of probability of default (PD), loss given default (LGD) and exposure at default (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.

4 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

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.

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 and III Guidelines:** the treatment of sovereign exposures in the banking book.
- **Basel II Guidelines:** applied under foundation Internal Rating 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.

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

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

3) Significant change in the interest rate.

4) 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.

Notes to the financial statements *(continued)*

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 Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

On write-offs the Group'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 Group 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 Group'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 Group 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 Group 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 Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

The table below sets out carrying amounts and fair value of the Group's financial assets and financial liabilities.

In the opinion of directors, the fair values of the Group'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.

		Group		
Amounts in Pula	Note	At amortised cost	Total carrying amount	Fair value
2022				
Financial assets				
Cash and cash equivalents	6	1 489 385 521	1 489 385 521	1 489 385 521
Investment securities	7	147 560 498	147 560 498	147 560 498
Repurchase agreements	8	113 278 612	113 278 612	113 278 612
Loans and advances to customers	9	3 658 943 806	3 658 943 806	3 658 943 806
Other assets	10	45 470 009	45 470 009	45 470 009
		5 454 638 446	5 454 638 446	5 454 638 446
Financial liabilities				
Deposits from customers	13	4 486 475 859	4 486 475 859	4 486 475 859
Balances due to other banks	14	240 593 469	240 593 469	240 593 469
Lease liabilities	15	7 811 713	7 811 713	7 811 713
Other liabilities	16	57 870 033	57 870 033	57 870 033
Subordinated debt	18	158 757 521	158 757 521	158 757 521
Preference shares	19	26 132 000	26 132 000	26 132 000
		4 737 047 126	4 737 047 126	4 737 047 126

*The Group comprises of First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

Amounts in Pula	Note	Company At amortised cost	Company Total carrying amount	Company Fair value
2022				
Financial assets				
Cash and cash equivalents	6	**1 489 385 521**	**1 489 385 521**	**1 489 385 521**
Investment securities	7	**147 560 498**	**147 560 498**	**147 560 498**
Repurchase agreements	8	**113 278 612**	**113 278 612**	**113 278 612**
Loans and advances to customers	9	**3 658 943 806**	**3 658 943 806**	**3 658 943 806**
Other assets	10	**45 121 978**	**45 121 978**	**45 121 978**
		5 454 290 415	**5 454 290 415**	**5 454 290 415**
Financial liabilities				
Deposits from customers	13	4 495 307 483	4 495 307 483	4 495 307 483
Balances due to other banks	14	240 593 469	240 593 469	240 593 469
Lease liabilities	15	7 811 713	7 811 713	7 811 713
Other liabilities	16	57 815 105	57 815 105	57 815 105
Subordinated debt	18	158 757 521	158 757 521	158 757 521
Preference shares	19	26 132 000	26 132 000	26 132 000
		4 986 417 291	4 986 417 291	4 986 417 291

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

Amounts in Pula	Note	Company At amortised cost	Company Total carrying amount	Company 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

(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 expected credit losses 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 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 amortise cost using the effective interest method, less expected credit losses.

(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 expected credit losses. Investment securities comprise fixed deposits with banks.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(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 derecognised:

(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 within 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.

(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%
• Leasehold improvements	Lease term

4 Significant accounting policies (continued)

(h) Property and equipment (continued)

(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. The revaluation is performed every two years.

(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 Group'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.

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.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

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

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 fair value through profit or loss.

(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 International Financial Reporting Standards.

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.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(q) Leases (continued)

The Bank as a lessee (continued)

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.

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.

4 Significant accounting policies (continued)

(q) Leases

The Bank as a 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.

(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 Group 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 Group 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.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(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 Group 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 Group 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.

(w) Provisions

A provision is recognised in the statement of financial position when the Group 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.

Notes to the financial statements *(continued)*

4 Significant accounting policies (continued)

(y) 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 and its subsidiary have ultimate responsibility for the level of risk taken by the Group and accordingly they have approved the overall business strategies and significant policies of the Group, including those related to managing and taking risk. Senior management in the Group are 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 Group has a Risk Management department, which is independent of those who accept risks in the Group.

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 lines, 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

(a) Credit risk

Credit risk is the risk of financial loss should the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. The Group 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 Group faces arises mainly from consumer lending loans, 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 Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

5 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk

The Board of Directors of the Bank and its subsidiary 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, 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 (ECLs) measurement

Expected credit losses (ECLs) measurement is already outlined under financial assets and liabilities (please refer to **pages 54 to 61**).

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.

5 Financial risk management (continued)

(a) Credit risk (continued)

Probability of default (PD) (continued)

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.

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.

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(a) Credit risk (continued)

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 – 6 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.

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.

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk

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

	Group 2022			Company 2021		
Amounts in Pula	Consumer Lending Banking	Corporate and Other Banking	Total	Consumer Lending Banking	Corporate and Other Banking	Total
Personal and term loans	1 579 016 596	1 531 975 319	3 110 991 915	1 103 369 134	1 413 201 522	2 516 570 656
Mortgage loans	–	107 332 172	107 332 172	–	99 832 411	99 832 411
Overdrafts	–	534 978 257	534 978 257	–	349 657 040	349 657 040
Gross loans and advances to customers	1 579 016 596	2 174 285 748	3 753 302 344	1 103 369 134	1 862 690 973	2 966 060 107
Reconciliation of ECL by exposure						
Balance at the beginning of the year	(43 416 292)	(38 237 466)	(81 653 758)	(15 166 728)	(43 026 613)	(58 193 341)
Charge to profit or loss	(7 203 977)	(9 338 766)	(16 542 743)	(35 050 074)	8 826 405	(26 223 669)
Net movement on interest in suspense	(2 717 012)	(871 905)	(3 588 917)	14 816	(1 139 210)	(1 124 394)
Recoveries	(9 168 501)	(1 273 513)	(10 442 014)	(7 893 111)	(6 643 893)	(14 537 004)
Write offs	10 209 542	7 659 352	17 868 894	14 678 805	3 745 845	18 424 650
Total impairment	(52 296 240)	(42 062 298)	(94 358 538)	(43 416 292)	(38 237 466)	(81 653 758)
Net loans and advances	1 526 720 356	2 132 223 450	3 658 943 806	1 059 952 842	1 824 453 507	2 884 406 349

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:

	Group		Company	
Amounts in Pula	2022	%	2021	%
Agriculture	50 002 788	1.33	24 626 041	0.83%
Mining	23 069 706	0.61	25 749 087	0.87%
Financial Services	211 999 420	5.65	287 003 219	9.68%
Construction	237 660 717	6.33	171 548 220	5.78%
Energy/Electricity/Gas/Water	16 879 669	0.45	13 643 327	0.46%
Manufacturing	181 059 337	4.82	65 582 789	2.21%
Individual/Households	1 964 060 536	52.35	1 335 250 016	45.02%
Real Estate	462 668 445	12.32	466 527 173	15.73%
Tourism and Leisure	337 978 143	9.00	271 730 402	9.16%
Transport and Communication	128 598 985	3.42	33 787 675	1.14%
Others	139 324 598	3.71	270 612 158	9.12%
	3 753 302 344	100.00	2 966 060 107	100.00

Prior year figures have been reclassified in line with the updated economic sectors.

5 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets before credit enhancements

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
Company 2022								
Reconciliation of ECL by exposure								
Stage 1	3 298 850 273	291 591 062	123 867 871	113 278 612	147 594 171	1 489 404 163	45 470 009	5 510 056 161
Stage 2	373 290 329	4 370 000	–	–	–	–	–	377 660 329
Stage 3	81 161 742	–	–	–	–	–	–	81 161 742
Gross exposure	3 753 302 344	295 961 062	123 867 871	113 278 612	147 594 171	1 489 404 163	45 470 009	5 968 878 232
Contribution by stage								
Stage 1 – 12 months ECL	(32 940 610)	(4 347 679)	–	–	(33 673)	(18 642)	–	(37 340 604)
Stage 2 – Lifetime ECL not credit impaired	(27 248 933)	(18 377)	–	–	–	–	–	(27 267 310)
Stage 3 – Lifetime ECL credit impaired	(34 168 995)	–	–	–	–	–	–	(34 168 995)
Total impairment	(94 358 538)	(4 366 056)	–	–	(33 673)	(18 642)	–	(98 776 909)
Net amount	3 658 943 806	291 595 006	123 867 871	113 278 612	147 560 498	1 489 385 521	45 470 009	5 870 101 323

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(a) 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
Company 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**

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:

	Group	Company
Amounts in Pula	**2022**	2021
Personal and Business Banking – Other loans and advances	**123 250 000**	120 753 010
Corporate and Investment Banking – Corporate lending	**1 898 691 594**	1 741 937 963
	2 021 941 594	1 862 690 973

It is the Group'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 Group held cash collateral of P304 502 058 (2021: P291 227 826) against loans and advances to customers.

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(b) Liquidity risk

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

Management of liquidity risk

The Group'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 Group'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 2022 (2021: 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 as follows:

Group

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)
2022								
ASSETS								
Cash and cash equivalents	1 489 385 521	1 422 704 486	66 681 035	–	–	–	–	1 489 385 521
Investment securities	147 560 498	–	–	–	1 968 067	71 792 879	73 799 553	147 560 498
Repurchase agreements	113 278 612	113 278 612	–	–	–	–	–	113 278 612
Loans and advances to customers (gross)	3 753 302 344	41 697 858	416 574 289	66 382 386	186 288 459	1 559 767 208	1 482 592 144	3 753 302 344
Other assets	45 470 009	45 470 009	–	–	–	–	–	45 470 009
Total assets	5 548 996 985	1 623 150 965	483 255 324	66 382 386	188 256 525	1 631 560 087	1 556 391 697	5 548 996 985
LIABILITIES								
Deposits from customers	(4 486 475 859)	(1 326 025 715)	(831 452 299)	(423 093 146)	(1 587 010 680)	(205 760 567)	(113 133 453)	(4 486 475 859)
Borrowings	(240 593 469)	(240 593 469)	–	–	–	–	–	(240 593 469)
Subordinated debt	(240 859 235)	(3 325 269)	(1 959 735)	(2 983 977)	(7 161 315)	(77 851 041)	(147 577 897)	(240 859 235)
Preference shares	(26 132 000)	–	–	–	–	(26 132 000)	–	(26 132 000)
Lease liabilities	(9 849 292)	(285 305)	(852 621)	(536 218)	(1 534 883)	(6 640 265)	–	(9 849 292)
Other liabilities	(57 870 033)	(57 870 033)	–	–	–	–	–	(57 870 033)
Total liabilities	(5 061 779 887)	(1 628 099 790)	(834 264 655)	(426 613 341)	(1 595 706 878)	(316 383 873)	(260 711 350)	(5 061 779 887)
Net liquidity gap	487 217 097	(4 948 826)	(351 009 331)	(360 230 955)	(1 407 450 353)	1 315 176 214	1 295 680 347	487 217 097
Cumulative liquidity gap	–	(4 948 826)	(355 958 156)	(716 189 111)	(2 123 639 464)	(808 463 250)	487 217 097	–

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(b) Liquidity risk (continued)

Company

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)
2022								
ASSETS								
Cash and cash equivalents	1 489 385 521	1 463 875 317	25 510 204	–	–	–	–	1 489 385 521
Investment securities	147 560 498	–	–	–	–	–	147 560 498	147 560 498
Repurchase agreements	113 278 612	113 278 612	–	–	–	–	–	113 278 612
Loans and advances to customers (gross)	3 753 302 344	41 697 858	416 574 289	66 382 386	186 288 459	1 559 767 208	1 482 592 144	3 753 302 344
Other assets	45 121 978	45 121 978	–	–	–	–	–	45 121 978
Total assets	5 548 648 954	1 663 973 766	442 084 493	66 382 386	186 288 459	1 559 767 208	1 630 152 643	5 548 648 954
LIABILITIES								
Deposits from customers	(4 495 307 483)	(1 334 857 339)	(831 452 299)	(423 093 146)	(1 587 010 680)	(205 760 567)	(113 133 453)	(4 495 307 483)
Borrowings	(240 593 469)	(240 593 469)	–	–	–	–	–	(240 593 469)
Subordinated debt	(240 859 235)	(3 325 269)	(1 959 735)	(2 983 977)	(7 161 315)	(77 851 041)	(147 577 897)	(240 859 235)
Preference shares	(26 132 000)	–	–	–	–	(26 132 000)	–	(26 132 000)
Lease liabilities	(9 849 292)	(285 305)	(852 621)	(536 218)	(1 534 883)	(6 640 265)	–	(9 849 292)
Other liabilities	(57 815 105)	(57 815 105)	–	–	–	–	–	(57 815 105)
Total liabilities	(5 070 556 584)	(1 509 325 466)	(834 264 655)	(554 164 362)	(1 595 706 878)	(316 383 873)	(260 711 350)	(5 070 556 584)
Net liquidity gap	478 092 371	154 648 300	(392 180 162)	(487 781 975)	(1 409 418 419)	1 243 383 335	1 369 441 293	478 092 371
Cumulative liquidity gap	–	154 648 300	(237 531 862)	(725 313 838)	(2 134 732 257)	(891 348 922)	478 092 371	–

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(b) Liquidity risk (continued)

Company

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)
2022								
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)	–	(2 984 217)
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	–

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 Group'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 Group's operations.

The objective of the Group is to manage operational risks so as to balance the avoidance of financial losses and damages to the Group'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 Group 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% (2021: 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:

	2022 – Group		
Amounts in Pula	Balance	Risk weight	Weighted value
Assets			
Cash	59 720 161	0%	–
Balances with Bank of Botswana	421 676 643	0%	–
Balances with domestic banks	699 060 501	20%	139 812 100
Balances credit quality A+ to A-	332 646 436	50%	166 323 218
Balances with foreign bank (credit rating BBB+ to BBB-)	728	100%	728
Claims on foreign banks (credit rating BB to B-)	109 086 091	100%	109 086 091
Claims on foreign banks (credit rating below B-)	482 312	150%	723 468
Long term loans and advances to customers	3 414 324 924	0%	2 889 426 223
Loans to Domestic Public Sector	50 158 231	20%	10 031 646
Commercial loans (credit rating BBB+ to BB-)	963 259 297	100%	963 259 297
Past due exposure where specific provision is less than 20% of the loan – Corporates	23 117 350	150%	34 676 024
Past due exposure where specific provision is greater than 20% but less than 50% of the loan – Corporates	5 152 092	100%	5 152 092
Past due exposure where specific provision is equal to 50% or more of the loan – Corporates	3 000 731	50%	1 500 365
Past due exposure where specific provision is less than 20% of the loan – Retail Portfolios	205 004	150%	307 505
Past due exposure where specific provision is greater than 20% but less than 50% of the loan – Retail Portfolios	250	100%	250
Past due exposure where specific provision is equal to 50% or more of the loan – Retail Portfolios	6 847 384	50%	3 423 692
Residential mortgage property (qualifying)	49 438 926	35%	17 303 624
Residential mortgage property (non-qualifying)	15 503 604	75%	11 627 703
Past due non-qualifying residential mortgages where specific provision is equal to 50% or more of the loan	1 081 539	100%	540 770
Retail loans	1 834 272 153	75%	1 375 704 115
Loans and advances fully secured by mortgage on commercial real estate	455 066 811	100%	455 066 811
Past due exposure where specific provision is less than 20% of the loan – Commercial Real Estate	7 221 552	150%	10 832 329
Other assets	136 207 459	100%	136 207 459
Commitments – Original maturity up to 1 year	128 916 479	20%	25 783 296
Commitments – Direct assistance	23 939 939	100%	23 939 939
Performance and bid bonds	–	0%	–
	5 326 061 673		3 491 302 522

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(d) Capital risk management (continued)

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

	2022 – Company		
Amounts in Pula	Balance	Risk weight	Weighted value
Assets			
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	2 629 435 660		2 225 574 443
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	9 726 183	150%	14 589 275
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 is equal to or greater than 20% but less than 50% of the loan	1 143 633	150%	1 715 450
Past due non-qualifying residential mortgages where specific provision is equal to 50% or more of the loan	1 250 706	100%	1 250 706
Past due exposure 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	535 727 072	100%	535 727 072
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**

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(d) Capital risk management (continued)

Amounts in Pula	Group 2022	Company 2021
Market risk weighted assets		
Foreign exchange risk (Note 5 market risk – **page 85 to 88**)	**4 455 013**	5 191 998
Capital requirement @ 8%	**356 401**	415 360
Risk-weighted amount factor	**6.7**	6.7
Market risk-weighted assets	**2 387 887**	2 782 912
TOTAL RISK WEIGHTED ASSETS		
Credit risk weighted assets	**3 491 302 522**	3 744 327 386
Market risk weighted assets	**2 387 887**	2 782 911
Operational risk weighted assets	**336 959 384**	261 609 615
	3 830 649 793	4 008 719 912
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	**372 813 359**	252 467 283
Less: Intangible asset and right-of-use assets	**(10 901 124)**	(6 987 750)
Credit loss reserve	**15 289 391**	15 289 391
	517 201 626	400 768 924
Tier 2 capital		
General provision – ECL (Note 9)	**43 646 636**	46 804 092
Subordinated debt (Note 18)	**154 000 000**	163 000 000
Preference shares	**26 132 000**	26 132 000
	223 778 636	235 936 092
Total regulatory capital	**740 980 262**	636 705 016
Risk weighted assets	**3 830 649 792**	4 008 719 912
Capital adequacy ratio	**19.34%**	15.88%
Regulatory requirement	**12.50%**	12.50%

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(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 Asset and Liability Committee (ALCO) monitors interest rate risk in the Bank. Interest rate sensitivity analyses as on the reporting date are set out below:

Interest rate sensitivity analysis

	Interest rate sensitive instruments			
Amounts in Pula	Zero rate	Floating rate	Fixed rate	Total
Group 2022				
Total assets	468 387 190	2 569 716 399	2 518 173 432	5 556 277 021
Total liabilities and shareholders' funds	1 682 737 878	439 753 863	3 433 785 280	5 556 277 021
Interest sensitivity gap	–	2 129 962 536	(915 611 848)	
Increase/(decrease) in profit or loss due to an increase in the average interest rates				
1%	–	21 299 625	(9 156 118)	
2%	–	42 599 251	(18 312 237)	
3%	–	63 898 876	(27 468 355)	
(Decrease)/increase in profit or loss due to a decrease in the average interest rates				
1%	–	(21 299 625)	9 156 118	
2%	–	(42 599 251)	18 312 237	
3%	–	(63 898 876)	27 468 355	

	Interest rate sensitive instruments			
	Zero rate	Floating rate	Fixed rate	Total
Company 2022				
Total assets	469 033 211	2 569 716 399	2 518 170 613	5 556 920 223
Total liabilities and shareholders' funds	1 658 303 666	464 831 277	3 433 785 280	5 556 920 223
Interest sensitivity gap	–	2 104 885 122	(915 614 667)	
Increase/(decrease) in profit or loss due to an increase in the average interest rates				
1%	–	21 048 851	(9 156 147)	
2%	–	42 097 702	(18 312 293)	
3%	–	63 146 554	(27 468 440)	
(Decrease)/increase in profit or loss due to a decrease in the average interest rates				
1%	–	(21 048 851)	9 156 147	
2%	–	(42 097 702)	18 312 293	
3%	–	(63 146 554)	27 468 440	

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(e) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

	Interest rate sensitive instruments			
Amounts in Pula	Zero rate	Floating rate	Fixed rate	Total
Company 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	

	Group 2022	Company 2022	Company 2021
Equity	**533 035 285**	**525 873 168**	410 762 785
Increase/(decrease) in profit or loss due to an increase in the average interest rates			
1%	**5 330 353**	**5 258 732**	4 107 628
2%	**10 660 706**	**10 517 463**	8 215 256
3%	**15 991 059**	**15 776 195**	12 322 884
(Decrease)/increase in profit or loss due to a decrease in the average interest rates			
1%	**(5 330 353)**	**(5 258 732)**	(4 107 628)
2%	**(10 660 706)**	**(10 517 463)**	(8 215 256)
3%	**(15 991 059)**	**(15 776 195)**	(12 322 884)

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(e) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity analysis (continued)

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:

	Group 2022 %	Company 2022 %	Company 2021 %
Assets:			
Standing Deposit Facility	1.65	1.65	–
Reverse Repo	–	–	0.25
Deposits with banking institutions	3.80	3.80	3.25
Loans and advances to customers – Consumer Lending	24.51	24.51	22.85
Loans and advances to customers – Corporate	8.93	8.93	7.45
Liabilities:			
Customer deposits (average rate)	3.92	3.91	1.10
Subordinated debt (average rate)	8.33	8.33	6.28

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.

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.

Notes to the financial statements *(continued)*

5 Financial risk management (continued)

(e) Market risk (continued)

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	Net	Long	Short	Sensitivity
Group 2022							
USD	837 255 414	841 775 148	5 796 598	1 276 864	1 276 864	–	12 769
GBP	79 251 233	61 365 581	(17 770 188)	115 464	115 464	–	1 155
EUR	368 124 107	115 626 129	(252 335 035)	162 942	162 942	–	1 629
ZAR	124 816 323	118 466 713	(6 420 369)	(70 760)	–	(70 760)	(708)
INR	2 185 895	–	(543 647)	1 642 248	1 642 248	–	16 422
JPY	895 211	38 230	–	856 980	856 980	–	8 570
MWKK	–	–	–	–	–	–	–
ZMW	482 312	–	(81 798)	400 514	400 514	–	4 005
	1 413 010 494	1 137 271 802	(271 354 438)	4 384 254	4 455 013	(70 760)	44 550

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.

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:

	Assets	Liabilities	Forward/Spot	Net	Long	Short	Sensitivity
Company 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)	(1 153 439)	–	(1 153 439)	(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	278 452	(408 000)	(385 477)	–	(385 477)	(3 855)
MWKK	117 145 929	117 145 929	–	–	–	–	–
	1 413 010 494	1 137 271 802	(271 354 438)	4 384 254	4 455 013	(70 760)	44 550

Notes to the financial statements *(continued)*

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 policies and procedures and adheres to the country's anti-money laundering 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 Know-Your-Customer and Anti-money Laundering procedures and legislation is an area of major focus for the Bank. The Bank has a dedicated Anti Money Laundering Officer.

6 Cash and cash equivalents

Amounts in Pula	**Group 2022**	Company 2021
Balances with the Central Bank	**274 115 070**	278 851 066
Balances with local banks	**713 345 165**	393 710 361
Balances with foreign banks	**442 205 059**	514 684 084
Restricted cash	**–**	4 888 490
Cash balances	**59 720 227**	31 631 386
	1 489 385 521	1 223 765 387
Gross cash and cash equivalents	**1 489 404 163**	1 224 007 975
Expected credit losses	**(18 642)**	(242 588)
Total cash and cash equivalents	**1 489 385 521**	1 223 765 387

Balances with other banks relate to operating account balances domiciled at the various correspondent banking institutions. This includes placements with other banks for a period of 1 day up to 3 months.

Notes to the financial statements *(continued)*

7 Investment securities

Amounts in Pula	Group 2022	Company 2021
Local Registered Government bonds	**147 560 498**	75 013 102
Bonds with local banks	**–**	23 509 147
Placements with foreign banks	**–**	153 468 663
	147 560 498	251 990 912
Gross investment securities	**147 594 171**	252 011 612
Expected credit losses	**(33 673)**	(20 700)
	147 560 498	251 990 912

The investment securities mature between 4.35 years to 8.70 years. P150 million Government bonds (2021: P75 million IFC bonds) are pledged to Bank of Botswana for a Statutory Lending Facility (SLF), available in case of emergencies.

8 Repurchase agreements

	Group 2022	Company 2021
Balances with local banks	**113 278 612**	264 600 470
Balances with foreign banks	**–**	425 203 096
	113 278 612	689 803 566

At reporting date, the Bank had entered into foreign currency repurchase agreements with Stanbic Bank Botswana Limited, a domestic bank. In the previous year, the bank entered into foreign currency swaps with both third parties namely Bank Baroda (Botswana) Limited, Stanbic Bank Botswana Limited and ABSA Bank Botswana Limited and related parties namely, First Capital Bank Malawi and First Capital Bank Zimbabwe Limited. Refer to Note 39 for information on transactions with related parties.

Notes to the financial statements *(continued)*

9 Loans and advances to customers

Amounts in Pula	Group 2022	Company 2021
Gross loans and advances are receivable as follows:		
Gross loans and advances	3 753 302 344	2 966 060 107
Expected credit losses	(94 358 538)	(81 653 758)
Net loans and advances	**3 658 943 806**	2 884 406 349

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.

	Stage 1	Stage 2	Stage 3	Total
Group 2022				
Opening impairment as at 1 January 2022	(31 381 304)	(18 166 562)	(32 105 892)	(81 653 758)
Transfer between stages:	5 831 932	390 160	(6 222 092)	–
Net transfer (to)/from stage 1	4 300 946	(484 527)	(3 816 419)	–
Net transfer (to)/from stage 2	896 341	434 674	(1 331 015)	–
Net transfer (to)/from stage 3	634 645	440 013	(1 074 658)	–
Net impairments (raised)/released	(7 391 238)	(9 472 531)	321 026	(16 542 743)
Net impairment movement during the year	(7 391 238)	(9 472 531)	321 026	(16 542 743)
Impaired accounts written off	–	–	17 868 894	17 868 894
Recoveries	–	–	(10 442 014)	(10 442 014)
Net movement on interest in suspense	–	–	(3 588 917)	(3 588 917)
Balance as at 31 December 2022	(32 940 610)	(27 248 933)	(34 168 995)	(94 358 538)

Notes to the financial statements *(continued)*

9 Loans and advances to customers (continued)

Amounts in Pula	Stage 1	Stage 2	Stage 3	Total
Company 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)	
Net transfer (to)/from stage 1	1 939 175	(4 195 549)	2 256 374	–
Net transfer (to)/from stage 2	1 122 573	11 420 275	(12 542 848)	–
Net 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)

10 Other assets

	Group 2022	Company 2022	Company 2021
Clearing accounts	2 350 116	2 350 116	3 608 389
EFT retail account	2 509 672	2 509 672	2 139 100
Unmatured mark-to-market forward revaluation	31 535 450	31 535 450	23 872 499
Prepaid expenses	2 630 220	2 623 054	2 251 572
Prepaid staff fair value adjustment	13 550 350	13 550 350	8 477 319
Security deposit	404 973	404 973	360 108
Visa settlement and collateral	5 840 043	5 840 043	5 856 396
Other	3 234 728	2 886 697	744 151
	62 055 552	61 700 355	47 309 534
Other assets (total)	62 055 552	61 700 355	47 309 534
Prepaid expense	(2 630 220)	(2 623 054)	(2 251 572)
Prepaid staff fair value adjustment	(13 550 350)	(13 550 350)	(8 477 319)
Security deposit	(404 973)	(404 973)	(360 108)
Other financial assets	45 470 009	45 121 978	36 220 535

Notes to the financial statements *(continued)*

10 Other assets (continued)

Amounts in Pula	Group 2022	Company 2022	Company 2021
Movement in other assets	14 746 018	14 390 821	28 388 880
Non-cash movement	(5 073 032)	(5 073 032)	552 583
Net movement in other assets (Note 36)	**9 672 986**	**9 317 789**	28 941 463

See Note 16 for details of mark-to-market liabilities. Included in "Other" is a receivable of P1 325 494 (2021: P464 940) from Jetwig Enterprises Proprietary Limited, a related party – refer to Note 39 for further details.

11 Property, equipment and intangible assets

	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Leasehold improvements	Capital work in progress	Total
2022 – Group								
Cost or valuation								
At beginning of year	3 041 834	29 350 542	23 285 843	7 440 537	55 200 000	–	3 287 831	121 606 587
Additions	1 334 099	3 459 650	–	1 582 243	–	121 946	6 123 933	12 621 871
Transfers	–	675 462	226 238	–	510 177	5 243 080	(6 654 957)	–
Revaluation during the year	–	–	–	–	89 823	–	–	89 823
Disposals and write offs	(623 208)	(98 532)	–	(36 325)	–	–	(128 294)	(886 359)
At end of year	3 752 725	33 387 122	23 512 081	8 986 455	55 800 000	5 365 026	2 628 513	133 431 922
Accumulated depreciation								
At beginning of year	2 371 092	22 613 205	17 809 424	5 438 867	1 375 256	–	–	49 607 844
Charge for the year	441 603	3 686 903	1 932 397	891 248	1 205 787	731 999	–	8 889 937
Disposals and write offs	(485 652)	(58 059)	–	(8 750)	–	–	–	(552 451)
Elimination of accumulated depreciation on revaluation	–	–	–	–	(2 379 951)	–	–	(2 379 951)
At end of year	2 327 043	26 242 049	19 741 821	6 321 365	201 092	731 999	–	55 565 369
Carrying amount	1 425 682	7 145 073	3 770 260	2 665 090	55 598 908	4 633 027	2 628 513	77 866 553

Notes to the financial statements *(continued)*

11 Property, equipment and intangible assets (continued)

Amounts in Pula	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Capital work in progress	Total
2021 – Company							
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

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 by David Watson 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 1 November 2022. 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.

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 (2021 and 2022) • Comparable sales (2021) • Projected increase in market rentals • Projected demand for office space due to legislative changes • Prime yields of 7.5% – 8.5%	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)

Notes to the financial statements *(continued)*

11 Property, equipment and intangible assets (continued)

Valuation technique and significant unobservable inputs

Amounts in Pula	Group 2022	Company 2021
Property revaluation reserve		
Opening balance	3 006 111	3 006 111
Revaluation gain	2 469 774	–
Deferred tax on revaluation gain (Note 17)	(543 350)	–
	4 932 535	3 006 111

12 Right-of-use assets

Amounts in Pula	Group 2022	Company 2021
Right-of-use-assets (Bank as lessee)		
Cost		
Opening balance	6 681 663	9 957 104
Additions	8 874 541	1 099 175
Terminated during the year	(5 672 171)	(4 374 616)
At end of year	9 884 033	6 681 663
Accumulated depreciation		
Opening balance	5 170 332	5 539 433
Charge for the year	2 640 379	2 554 186
Expired and terminated during the year	(5 111 556)	(2 923 287)
At end of year	2 699 155	5 170 332
Carrying amount	7 184 878	1 511 331

The Bank leases several buildings with average lease terms of 2 to 5 years. Total cash outflows from the leases amounted to P3 141 477 (2021: P2 440 190).

Notes to the financial statements *(continued)*

13 Deposits from customers

Amounts in Pula	Group 2022	Company 2022	Company 2021
Current accounts	449 608 735	458 440 359	550 816 870
Savings accounts	84 303 657	84 303 657	130 772 237
Foreign currency denominated accounts	578 059 683	578 059 683	624 885 873
Call deposit accounts	181 311 972	181 311 972	177 133 977
Term deposit accounts	3 193 191 812	3 193 191 812	2 229 395 476
	4 486 475 859	4 495 307 483	3 713 004 433

14 Balances due to other banks

	Company 2022	Company 2021
Repurchase agreements (foreign currency swaps)	113 042 449	687 426 294
Borrowings from other local banks	127 551 020	82 256 169
	240 593 469	769 682 463

At the reporting date, the Bank had entered into a short-term foreign currency repurchase agreement with Stanbic Bank Botswana Limited. Additionally the Bank had sourced a foreign currency denominated short-term borrowing from Bank of Baroda (Botswana) Limited.

All balances due to other banks are with domestic entities, are stated at amortised cost and are short term in nature with tenures ranging from 4 days to 121 days.

In the previous year, the Bank had entered into foreign currency swaps with related parties namely, First Capital Bank Malawi and First Capital Bank Zimbabwe Limited.

Notes to the financial statements *(continued)*

15 Lease liabilities

Amounts in Pula	Group 2022	Company 2021
Carrying amount	**7 811 713**	2 479 674
Maturity analysis:		
Year 1	**3 209 027**	1 888 201
Year 2	**1 986 475**	647 284
Year 3	**2 007 689**	192 168
Year 4	**2 085 372**	155 548
Year 5	**560 729**	101 017
Total undiscounted lease liabilities at 31 December	**9 849 292**	2 984 218
Less: Unearned interest	**(2 037 579)**	(504 544)
	7 811 713	2 479 674
Analysed as:		
Current	**2 802 842**	1 566 047
Non-current	**5 008 871**	913 627
	7 811 713	2 479 674

Notes to the financial statements *(continued)*

16 Trade and other payables

Amounts in Pula	Group 2022	Company 2022	Company 2021
Accrued expenses	7 995 764	7 931 632	7 842 176
Banker's cheques issued and uncleared	1 342 220	1 342 220	2 527 018
Clearing accounts	15 614 296	15 614 296	5 439 786
ECLs on guarantees and letters of credit	4 366 056	4 366 056	3 821 534
Payroll accruals	16 245 790	16 245 790	12 485 386
VAT and withholding taxes	12 042 134	11 961 401	4 125 098
Visa settlement	3 531 630	3 531 630	1 710 080
Unmatured mark to market forward revaluation	17 874 053	17 874 053	14 656 540
Related party payables	2 696 034	2 696 034	940 807
Unclaimed balances	2 584 466	2 584 466	1 047 192
Insurance premiums payable	1 725 040	1 725 040	1 413 921
Others	1 034 007	1 043 211	963 653
	87 051 490	86 915 829	56 973 191
Movement in other liabilities	(30 078 299)	(29 942 638)	(22 926 009)
ECLs on guarantees and letters of credit	544 522	544 522	3 666 398
Non-cash movement	(900 432)	–	–
Net movement in other liabilities (Note 36)	(30 434 209)	(29 398 116)	(19 259 611)
Trade and other payables (Total)	87 051 490	86 915 829	56 973 191
Less: VAT and withholding taxes	(12 042 134)	(11 961 401)	(4 125 098)
Less: PAYE	(893 533)	(893 533)	(592 084)
Less: Payroll accruals	(16 245 790)	(16 245 790)	(12 485 386)
Other financial liabilities	57 870 033	57 815 105	39 770 623

Notes to the financial statements *(continued)*

17 Deferred tax assets and liabilities

Movement in deferred taxation

Amounts in Pula	Group 2022	Company 2022	Company 2021
Deferred tax assets			
Opening balance	–	–	–
Opening deferred tax asset for subsidiary	97 990	–	–
Current year charge to profit or loss (Note 32)	(96 389)	–	–
Closing balance of deferred tax assets	1 601	–	–
Deferred tax liabilities			
Opening balance	7 992 467	7 992 467	5 359 964
Current year charge to profit or loss (Note 32)	3 377 720	3 377 720	2 632 503
	11 370 187	11 370 187	7 992 467
Deferred tax on revaluation charged to equity	543 350	543 350	–
Closing balance of deferred tax liabilities	11 913 537	11 913 537	7 992 467
Analysis of deferred assets			
Other temporary differences	1 601	–	–
Analysis of deferred liabilities			
Accelerated capital allowances on property and equipment	164 627	164 627	837 543
Other temporary differences	11 748 910	11 748 910	7 154 924
Total	11 913 537	11 913 537	7 992 467

Notes to the financial statements *(continued)*

18 Subordinated debt

Amounts in Pula	Group 2022	Company 2021
Opening balance	187 000 000	187 000 000
Repayments during the year	(30 000 000)	–
	157 000 000	187 000 000
Accrued interest	2 267 596	1 790 172
Unamortised issue costs	(510 076)	(646 611)
	158 757 521	188 143 561
Total subordinated debt – as per above	157 000 000	187 000 000
Less: amortisation of subordinated debt older than 5 years	(3 000 000)	(24 000 000)
Qualifying capital (Basel II)	154 000 000	163 000 000

Subordinated debt comprises of:

- P15 million floating rate notes of P1.00 each maturing on 1 July 2027, which earned interest at a cumulative rate of 7.96% following introduction of the Monetary Policy Rate (MOPR) by the Bank of Botswana in April 2022. These are held by African Alliance Botswana.
- P33 million floating rate notes of P1.00 each maturing on 25 July 2028, which earned interest at a cumulative rate of 8.16% following introduction of the MOPR by the Bank of Botswana in April 2022. These are held by 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, which earned interest at a cumulative rate of 8.51% following introduction of the MOPR by the Bank of Botswana in April 2022. These are held by 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.
- P4 million floating rate notes of P1.00 each maturing on 31 May 2029, which earned interest at a cumulative rate of 8.51% following introduction of the MOPR by the Bank of Botswana in April 2022. These are held 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, which earned interest at a cumulative rate of 8.51% following introduction of the MOPR by the Bank of Botswana in April 2022. The Bank has an early optional redemption date of 16 January 2025 subject to prior written consent from Bank of Botswana.

Notes to the financial statements *(continued)*

19 Preference shares

Amounts in Pula	Group 2022	Company 2021
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 earned dividends at the cumulative rate of 8.26% following introduction of the MOPR by the Bank of Botswana in April 2022. 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

	Group 2022	Company 2021
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 (2021: 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

	Group 2022	Company 2021
Balance at beginning and of year	**15 289 391**	15 289 391

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

22 Interest income

	Group 2022	Company 2021
Loans and advances	**493 618 704**	331 810 994
Investment securities	**19 687 779**	21 425 658
Placements with other banks	**17 285 023**	9 625 813
	530 591 506	362 862 465

Notes to the financial statements *(continued)*

23 Interest expense

Amounts in Pula	Group 2022	Company 2021
Current accounts	909 449	1 249 483
Savings accounts	825 037	649 146
Call deposits	4 023 945	4 292 191
Fixed deposits	154 238 287	87 717 288
Borrowing from other banks	6 249 715	2 677 442
Subordinated debt	11 918 222	11 871 110
Preference shares	1 971 878	1 763 910
Lease liability	579 004	401 297
	180 715 537	110 621 867

24 Net fees and commission income

	Group 2022	Company 2022	Company 2021
Account activity fees	3 492 471	3 493 120	3 746 525
Card-based transaction fess	3 645 765	3 645 765	2 931 685
Guarantees	6 877 062	6 877 062	5 211 091
Other fees and commission	9 133 470	9 133 470	8 264 888
Total fees and commission income	23 149 417	23 149 417	20 154 189
VISA fees expense	(2 527 040)	(2 527 040)	–
Net banking fees and commission income	20 622 377	20 622 377	20 154 189
Insurance commission	6 385 834	–	(1 487 771)
Total banking and insurance fees and commission income	27 007 562	20 622 377	18 666 418

VISA fees expense amounting to P1 853 630 were reported under administration expenses in prior year.

25 Gain on foreign exchange transactions

	Group 2022	Company 2021
Net foreign currency gains and losses	43 521 859	37 514 989
Commission on foreign currency transactions	3 182 138	3 042 016
	46 703 997	40 557 005

Notes to the financial statements *(continued)*

26 Other operating income

Amounts in Pula	Group 2022	Company 2022	Company 2021
Profit on disposal of property and equipment	376 443	376 443	98 945
Other income	4 126 206	4 704 993	603 945
	4 502 649	5 081 436	702 890

27 Staff costs

	Group 2022	Company 2021
Salaries and wages	54 460 180	47 524 438
Contributions to staff defined contribution plan	5 558 621	4 676 921
Training costs	1 160 360	724 924
Other staff costs	21 443 107	21 660 673
	82 622 268	74 586 956

28 Premises and equipment costs

	Group 2022	Company 2021
Equipment hire	904 803	691 497
Rent, rates and utilities	1 426 281	1 232 298
Premises and equipment repairs and maintenance	538 114	608 175
Security costs	1 334 964	1 077 140
	4 204 162	3 609 110

29 Information technology costs

	Group 2022	Company 2021
Computer repairs and maintenance and software licensing costs	9 949 324	7 680 662
Internet connectivity	1 409 158	1 059 610
	11 358 482	8 740 272

Notes to the financial statements *(continued)*

30 Administration and general expenses

Amounts in Pula	Group 2022	Company 2022	Company 2021
Auditor's remuneration	1 586 062	1 541 543	1 865 107
Bank charges	6 417 274	6 417 274	7 289 315
Non-Executive Directors' fees and expenses	2 936 679	2 936 679	1 654 757
Fuel	282 551	282 551	150 114
Insurance	1 339 999	1 339 999	1 371 376
Legal and professional fees, fines and penalties	3 143 784	3 364 013	2 671 037
Marketing costs	3 048 547	3 048 547	1 369 748
Motor vehicle running costs	172 348	172 348	109 378
Operational losses	6 671 469	6 671 469	373 364
Other administration costs	25 587 712	25 587 712	11 599 303
Postage	932 142	932 142	990 296
Printing and stationery	992 884	992 884	556 273
Professional subscriptions	58 129	58 129	39 483
Communication costs	2 121 917	2 121 917	1 431 334
Travel expenses	2 718 821	2 718 821	750 775
	58 010 318	58 138 028	32 221 660

31 Net impairment losses on financial instruments

	Group 2022	Company 2021
Net foreign currency gains and losses		
- Investment securities and cash equivalents	(210 973)	(178 463)
- Loans and advances to customers	28 056 184	39 434 635
- Guarantees and letters of credit	544 522	3 666 398
	28 389 733	42 922 569
Recoveries on loans and advance to customers previously written off	(10 442 014)	(14 537 004)
	17 947 719	28 385 565

Notes to the financial statements *(continued)*

32 Income tax expense

Amounts in Pula	Group 2022	Company 2022	Company 2021
Normal company taxation	44 576 167	43 370 254	27 892 477
Changes in income tax estimates related to prior year	–		2 387 221
Origination and reversal of temporary differences – deferred tax (Note 17)	3 474 109	3 377 720	2 632 503
Taxation per profit or loss	48 050 276	46 747 974	32 912 201
Tax reconciliation			
Profit before taxation	217 363 479	211 429 371	135 907 076
Taxation at statutory rate of 22% (2021: 22%)	47 819 965	46 514 462	29 899 557
Disallowable expenses	131 374	134 575	490 996
Changes in income tax estimates related to prior years	–	–	2 387 221
Prior year understatement of deferred tax liability	98 937	98 937	134 427
Taxation per profit or loss	48 050 276	46 747 974	32 912 201

33 Earnings and dividend per share

	Group 2022	Company 2022	Company 2021
Profit attributable to ordinary shareholders	169 313 203	164 681 397	102 994 875
Weighted average number of ordinary shares in issue	101 833 333	101 833 333	101 833 333
Basic and diluted earnings per share (Pula)	1.6627	1.6172	1.0114
Dividend paid	51 497 438	51 497 438	34 862 234
Dividend per share (Pula)	0.5057	0.5057	0.3423

34 Interest and non-interest income

	Group 2022	Company 2022	Company 2021
Interest income	530 591 506	530 591 506	362 862 465
Fees, commissions	78 214 209	72 407 811	59 926 313
Movement in accrued interest income	599 180	599 180	1 213 781
Total interest, fees and commissions	609 404 895	603 598 497	424 002 559
Other income			
Profit on disposal of fixed assets	(376 443)	(376 443)	–
	609 028 452	603 222 054	424 002 559

Notes to the financial statements *(continued)*

35 Interest paid

Amounts in Pula	Group 2022	Company 2021
Interest expense	180 715 538	110 621 867
Borrowing cost – IFRS 16	(579 004)	(401 297)
Movement in accrued interest expense	(43 000 146)	(5 217 987)
	137 136 388	105 002 583

36 Cash paid to suppliers and employees

Amounts in Pula	Group 2022	Company 2022	Company 2021
Staff costs (Note 27)	82 622 268	82 622 268	74 586 956
Fair value adjustment staff loans	3 353 880	3 353 880	(1 781 773)
Premises and equipment costs	4 204 162	4 204 162	3 609 110
Information technology costs	11 358 482	11 358 482	8 740 272
Loss on disposal of fixed assets	–	–	98 944
Operational losses	(6 671 469)	(6 671 469)	(373 364)
Administration and general expenses	58 010 318	58 138 028	32 221 660
Shared services costs	25 053 433	25 053 433	18 067 563
	177 931 074	178 058 784	135 169 368
Movement in other assets (Note 10)	9 672 986	9 317 789	28 941 463
Movement in other liabilities (Note 16)	(30 434 209)	(29 398 116)	19 259 611
Movement in lease liability & right-of-use assets	–	–	(2 668 182)
	157 169 851	157 978 457	180 702 260

Notes to the financial statements *(continued)*

37 Net movement in customer balances

Amounts in Pula	Group 2022	Company 2022	Company 2021
Both net of accrued interest			
Liabilities to customers:			
Total deposits	4 486 475 859	4 495 307 483	3 713 004 433
Total interest accrued	(84 007 825)	(84 007 825)	(41 201 056)
Net deposits	4 402 468 034	4 411 299 658	3 671 803 377
Less prior year net deposits	(3 671 803 377	(3 671 803 377)	(3 002 281 605)
Movement in deposit balances	730 664 657	739 496 281	669 521 772
Loans and advances to customers:			
Gross loans and advances		3 753 302 344	2 966 060 107
Total interest accrued		(9 104 248)	(9 084 276)
Staff loan fair value adjustment		13 550 350	11 831 200
Net loans and advances		3 757 748 446	2 968 807 031
Less prior year net loans and advances		(2 968 807 031)	(2 182 532 633)
Net movement in loans and advances to customers		(788 941 415)	(786 274 398)

38 Accrued interest

Amounts in Pula	Group 2022	Company 2021
Accrued interest-receivable (included in loans and advances and respective instruments)		
Term loan	9 104 248	9 084 276
Interbank lending	3 108	914 258
Investment securities	235 555	185 304
Total	9 342 911	10 183 838
Accrued interest-receivable (included in loans and advances and respective instruments)		
Fixed deposits	84 007 825	41 201 056
Total (included in deposits)	84 007 825	41 201 056
Subordinated debt	2 267 596	1 790 172
Balances due to other banks	5 237	294 038
Total	86 280 658	43 285 266

Notes to the financial statements *(continued)*

39 Related party transactions

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
Jetwig Enterprises Proprietary Limited T/A First Capital Bank Insurance Agency	Wholly owned subsidiary (registered in Botswana)

39.1 Transactions with related parties

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		Group 2022	Company 2022	Company 2021
Related party	**Nature of transaction**			
Directors	Loans/advances			1 268 011
	Deposits	**(1 197 280)**	**(1 197 280)**	4 001 973
	Interest income	**66 887**	**66 887**	35 255
	Interest expense	**(60 892)**	**(60 892)**	60 501
	Board meeting fees and expenses	**2 936 679**	**2 936 679**	1 654 757
Directors' related entities	Loans/advances	**2 175 000**	**2 175 000**	1 780 604
	Deposits	**4 955 928**	**4 955 928**	2 499 709
	Interest income	**1 237 730**	**1 237 730**	979 518
	Interest expense	**(245 958)**	**(245 958)**	131 602
Management	Loans/advances	**4 298 070**	**4 298 070**	(153 607)
	Deposits	**(2 355 220)**	**(2 355 220)**	(3 641 521)
	Interest income	**449 956**	**449 956**	223 862
	Interest expense	**(23 981)**	**(23 981)**	29 617
	Remuneration: short term employee benefits	**23 412 024**	**23 412 024**	29 792 899
First Capital Bank (Malawi) Plc	Aircraft cost & other	**978 733**	**978 733**	
	Interest income	**6 495 509**	**6 495 509**	12 376 487
	Deposits	**–**	**–**	23
	Cash and cash equivalents	**(117 145 929)**	**(117 145 929)**	(119 968 191)
	Repurchase agreement – liability	**129 617 880**	**129 617 880**	125 372 682
	Repurchase agreement – asset	**(105 737 905)**	**(105 737 905)**	(131 139 830)

Notes to the financial statements *(continued)*

39 Related party transactions (continued)

39.1 Transactions with related parties (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		Group 2022	Company 2022	Company 2021
Related party	**Nature of transaction**			
FMBcapital Holdings Plc (FMBCH)	Dividend paid on preference shares	**1 971 878**	**1 971 878**	1 763 910
	Dividend paid	**19 878 011**	**19 878 011**	13 456 822
	Interest income	**1 264 339**	**1 264 339**	1 732 280
	Loans/advances	**(29 377 203)**	**(29 377 203)**	7 755 582
	Deposits	**(92 674 935)**	**(92 674 935)**	(55 911 020)
	Management fees	**16 137 770**	**16 137 770**	4 865 923
First Capital Shared Services Limited (FCSSL)	Shared services fees	**5 022 966**	**5 022 996**	10 489 485
First Capital Bank (Mozambique), S.A.	Placements	**329 474**	**329 474**	29 377 203
	Interest income	**–**	**–**	852 551
First Capital Bank Zimbabwe Limited	Deposits	**496 524**	**496 524**	(263 190)
	Interest income	**2 815 194**	**2 815 194**	2 338 114
	Repurchase agreement-liability	**126 167 866**	**126 167 866**	(126 167 866)
	Repurchase agreement-asset	**(125 636 437)**	**(125 636 437)**	125 636 437
Jetwig Enterprises Proprietary Limited	Deposits	**–**	**(6 567 763)**	(961 552)
	Non -interest income	**–**	**649**	583
	Management fee income and other	**–**	**578 787**	464 940
	Investment in subsidiary	**–**	**970 000**	29 900
First Capital Bank Zambia Limited	Expenses paid by related party	**(90 151)**	**(90 151)**	–

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 0.00% to 13.36% 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.

Notes to the financial statements *(continued)*

39 Related party transactions (continued)

39.2 Balances with related parties

Balances with related parties are set out below:

Amounts in Pula		Group 2022 Receivable/ (payable)	Company 2022 Receivable/ (payable)	Company 2021 Receivable/ payable
Related party	**Nature of transaction**			
Directors	Loans/advances	1 286 440	1 286 440	551 359
	Deposits	(14 520 164)	(14 520 164)	(15 717 444)
Directors' related entities	Loans/advances	19 994 778	19 994 778	18 193 038
	Deposits	(9 525 800)	(9 525 800)	(4 569 872)
Management	Loans/advances	11 382 918	11 382 918	8 845 159
	Deposits	(3 681 849)	(3 681 849)	(6 037 069)
First Capital Bank (Malawi) Plc	Aircraft cost & other	(96 432)	(96 432)	(253 331)
	Interest income	46 001	46 001	544 602
	Deposits	–	–	23
	Cash and cash equivalents	–	–	117 145 929
	Repurchase agreement-liability	–	–	(117 145 929)
	Repurchase agreement -asset	–	–	117 508 813
FMBcapital Holdings Plc (FMBCH)	Preference shares	(26 132 000)	(26 132 000)	(26 132 000)
	Interest income	1 264 339	1 264 339	1 512 926
	Loans/advances	–	–	29 377 203
	Deposits	(6 325 403)	(6 325 403)	(99 000 338)
	Management fees	(1 532 168)	(1 532 168)	(287 203)
First Capital Shared Services Limited (FCSSL)	Shared services fees	(512 156)	(512 156)	(445 076)
First Capital Bank (Mozambique), S.A	Placements	–	–	29 377 203
	Interest income	–	–	172 999
First Capital Bank Zimbabwe Limited	Deposits	(233 334)	(233 334)	(263 190)
	Repurchase agreement – liability	–	–	(126 167 866)
	Repurchase agreement – asset	–	–	125 636 437
Jetwig Enterprises Proprietary Limited	Current and savings accounts	–	(8 831 624)	(2 263 861)
	Management fee income and other	–	1 325 494	464 940
	Investment in subsidiary	–	1 000 000	30 000
First Capital Bank Zambia Limited	Expenses paid by related party	(90 151)	(90 151)	–

Notes to the financial statements *(continued)*

40 Contingencies and commitments

Amounts in Pula	Group 2022	Company 2021
Guarantees	**295 961 062**	235 158 042
Loan commitments	**123 867 871**	114 675 706
Legal claims	**200 000**	360 000
Capital commitments	**24 939 301**	19 314 700
	444 968 234	369 508 448

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

41 Consolidated financial statements

The Group has prepared consolidated financial statements for the financial year ended 31 December 2022 for the first time. As a result, no comparatives have been presented for the Group for the year ended 31 December 2021.

In the previous years, the Group was consolidated and will continue to be consolidated by its Parent company, FMBcapital Holdings Plc, which produces and publishes IFRS compliant consolidated financial statements.

The Bank's subsidiary, Jetwig Enterprises Proprietary Limited, is 100% owned by the Bank and started trading in 2019. Below is an analysis of Jetwig Enterprises Proprietary Limited's retained earnings included in the opening consolidated retained earnings:

Profit after tax	As reported per Jetwig audited financial statements Pula	Included in consolidated opening retained earnings Pula
Financial year 2019	554 269	554 269
Financial year 2020	635 809	635 809
Financial year 2021	1 340 233	1 340 233
Total	**2 530 311**	**2 530 311**

The Directors have assessed and considered the operations and results of Jetwig Enterprises Proprietary Limited not to be material for the Group. The operations and results of Jetwig Enterprises Proprietary Limited represent 2.74% (2021: 1.28%) of the Group.

As a result the Directors elected to prepare the consolidated Financial Statements for the 2022 financial year prospectively and no consolidated comparatives have been prepared.

Notes to the financial statements *(continued)*

42 Investment in subsidiary company

The Bank holds all the shares in Jetwig Enterprises Proprietary Limited trading as First Capital Bank Insurance Agency, which is an insurance agency that operates principally in Botswana. The insurance agency is regulated by the Non-Bank Financial Institutions Regulatory Authority.

During the year under review, the Bank capitalised Jetwig Enterprises Proprietary Limited by P970 000. The total investment in the subsidiary company is now P1 000 000 (2021: P30 000).

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	2022	2021
Pula/GBP	**15.3503**	15.8405
Pula/Rand	**0.7524**	0.7371
Pula/US Dollar	**12.7551**	11.7509
Pula/Euro	**13.6147**	13.3156
Inflation rate	**12.4%**	8.7%

44 COVID-19 update

With the easing of COVID-19 infection rates across the globe and the country, in 2022 the Botswana Government has eased measures initially put in place in prior years to control the rate of the spread of infections throughout the country. The direct impact of COVID has significantly reduced in 2022 financial year, though an indirect impact of COVID can still be felt through the downstream effects of the pandemic on customer performance, and the economy. The Bank anticipates that the economic effects of COVID-19 will continue to reduce in coming 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. The stress tests performed indicate that the Bank will be able to continue as a going concern.

45 Events after the reporting data

The Bank has proposed an ordinary dividend of 58.92 thebe per share, total P60 000 000 for the financial year ending 31 December 2022 (2021: P51 497 438).

There are no other material or significant events or contingencies after the reporting date, which require disclosure or adjustment in the financial statements for the period ended.

113 OTHER INFORMATION

Interactive content

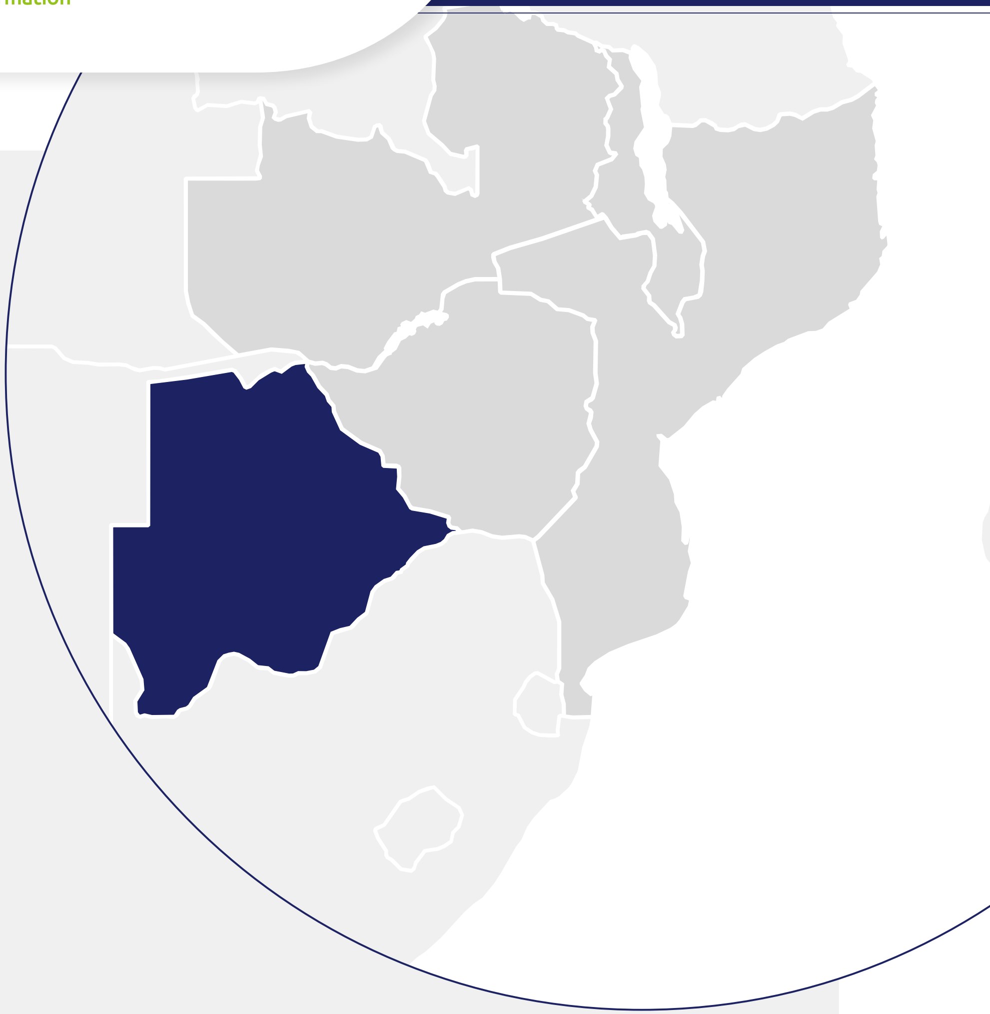
Abbreviations and acronymns

First Capital Bank/ Company	First Capital Bank Limited (Botswana)
FCSSL	First Capital Shared Services Limited
FMBCH	FMBcapital Holdings plc
the Group	First Capital Bank Limited (Botswana) and its subsidiary, Jetwig Enterprises Proprietary Limited

ATM	Automated Teller Machine
ALCO	Asset and Liability Committee
CGU	Cash Generating Unit
EWRMF	Enterprise-Wide Risk Management Framework
GDP	Gross Domestic Product
IMF	International Monetary Fund
IRE	Initial Recognition Exemption
CAR	Capital Adequacy Ratio
COVID	Corona Virus Disease
CSR	Corporate Social Responsibility
EAD	Exposure at default
ECL	Expected Credit Losses
EPS	Earnings Per Share
FVTPL	Fair Value through Profit or Loss
FVOCI	Fair Value through Other Comprehensive Income

MOPR	Monetary Policy Rate
NCI	Non-Controlling Interest
NGO	Non-governmental Organisation
NOP	Net Open Foreign Currency Position
NPAT	Net Profit After Tax
NPLs	Non-Performing Loans
PD	Probability of Default
RWA	Risk Weighted Assets
RTGS	Real-Time Gross Settlement
SICR	Significant Increase in Credit Risk
SME	Small and Medium-sized Enterprises
S&P	Standard & Poor's
USA	United States of America
US$	United States Dollars
VAT	Value Added Tax

Where to find us



BOTSWANA

First Capital Bank
First Capital House, Plot 74768,
2nd Commercial Road, New CBD

+(267) 3907801

feedback@firstcapitalbank.co.bw

www.firstcapitalbank.co.bw/

Key corporate information

Registered office

Plot 50370
Acumen Park
Fairgrounds
Gaborone, **Botswana**

Company secretary

Letlhogonolo Matlhabe

letlhogonolo.matlhabe@firstcapitalbank.co.bw

Auditors

Deloitte & Touche

Plot 64518
Fairgrounds
Gaborone, **Botswana**

First Capital Bank

First Capital House
Plot 74768
2nd Commercial Road
New CBD
PO Box 5548
Gaborone

+(267) 390 7801
feedback@firstcapitalbank.co.bw
www.firstcapitalbank.co.bw/

Company registration number

UIN BW00000729396

First Capital
BANK

www.firstcapitalbank.co.bw

Belief Comes First