First Capital
BANK

2023 ANNUAL REPORT

Belief comes first.

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Introduction

Interactive content

About this report

This report comprises 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 2023 to 31 December 2023.

Scope and boundary

This report covers the material information about the financial, economic, social and environmental performance of First Capital Bank for the financial year ended 31 December 2023. 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.

This report demonstrates how these factors influence our business model, strategic objectives and future plans in creating and sustaining value for our stakeholders in the short, medium and long term.

Navigation

This report incorporates digital navigation capabilities to assist you in moving between sections and to improve the readability and connectivity of information across the report. Icons to navigate this report can be found on each page and within the report to refer readers to information elsewhere in this report or our other reports online.

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

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

Reporting principles and frameworks

First Capital Bank is licenced by the Bank of Botswana according to the provisions of the Banking Act (Cap 46.04, section 4). The Bank is therefore governed by the banking laws and regulations 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 (Mauritius Code)
- International Integrated Reporting Framework (<IR> Framework) of the IFRS Foundation

Materiality and time horizons

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 form an integral part of 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.

A dedicated process is followed in the preparation and approval of this report. Information contained in this report is derived from the Bank's own internal resources and from information available in the public domain.

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/**

Forward-looking statements

All forward-looking statements are based on beliefs and assumptions relative to information currently available to the Bank'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 undertakes no obligation to update forward-looking statements to reflect subsequently occurring events or circumstances or to reflect unanticipated events or developments.

Board approval

The Board and its sub-committees acknowledge their responsibility for overseeing the integrity and completeness of this report. The Board confirms that it has collectively reviewed the contents, preparation and presentation of this report.

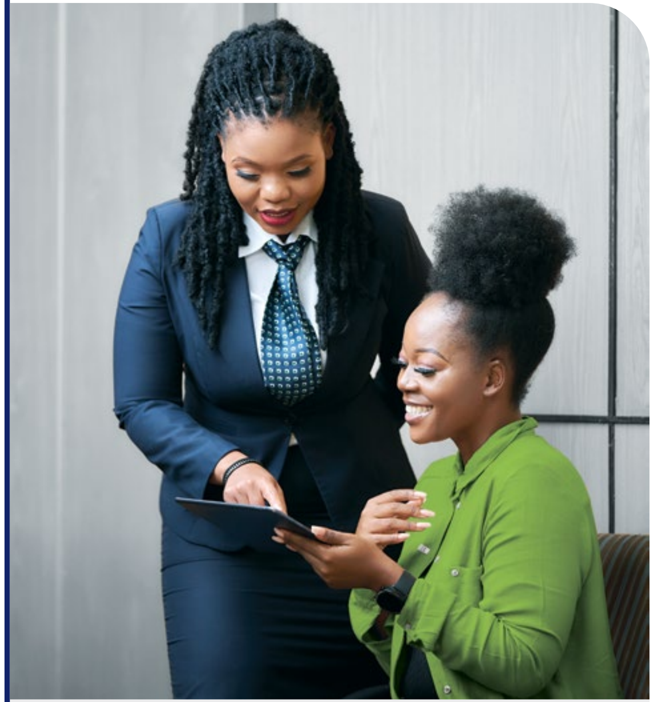
Furthermore, it believes that it has appropriately considered the accuracy and completeness of the material matters as well as the reliability of all data and information presented herein.

The Board approved the Annual Report on 7th June 2024.

On behalf of the Board,

Richard Wright
Chairman

Reinette van der Merwe
Chief Executive Officer



Assurance

Ernst & Young performed an independent audit of the Bank's annual financial statements and have reviewed this report.

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 standards of customer service.

The Bank began commercial operations in May 2008, and now has headquarters and two branches in Gaborone, as well as branches in Mogoditshane, Francistown and 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), which holds 38.6% of its shares and is based in Mauritius. FMBCH Group also has banking operations in Malawi, Mozambique, Zambia and Zimbabwe.

At a glance

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

Branches	Employees	ATMs[1]	Customers
5	229	5	28 312
2022: 5	2022: 222	2022: 7	2022: 22 537

Assets of	Capital adequacy ratio	Consumer service centre
BWP6.4 billion	18.09%	6
2022: BWP5.4 billion	Regulatory requirement: 12.5%	2022: 6

1 *Automated teller machines.*

Company structure

FMBcapital HOLDINGS plc

38.6%

First Capital BANK

Our investors

Investor	Share
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%

61.4%

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

100%

Partner with an award winning Bank

First Capital Bank has been recognised for its achievements in 2023 with the following awards:

Best Corporate Bank Botswana 2023
World Business Stars Magazine

Best Retail Bank Botswana 2023
Finance Derivative
World Business Stars Magazine

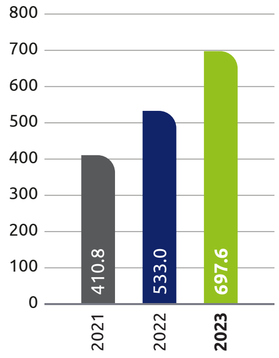
Best Foreign Exchange Bank Botswana 2023
Finance Derivative

Best CSR Initiative Firm Botswana 2023
World Business Outlook
World Business Stars Magazine

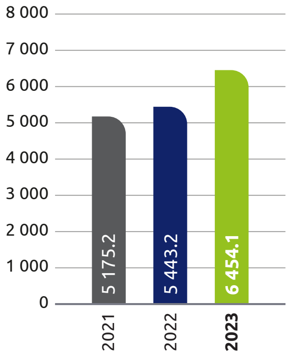
2023 highlights

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

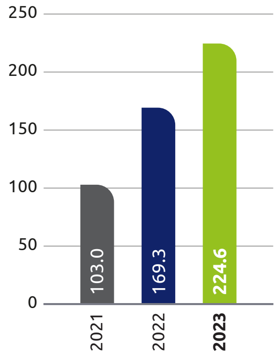
Shareholder funds
(BWP million)



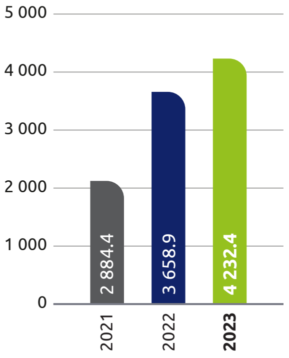
Total assets[1]
(BWP million)



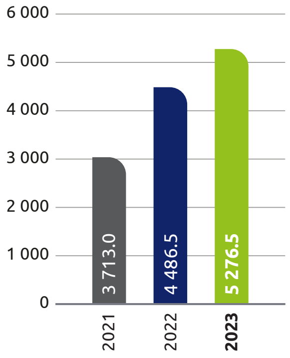
Profit for the year
(BWP million)



Loans and advances to customers
(BWP million)



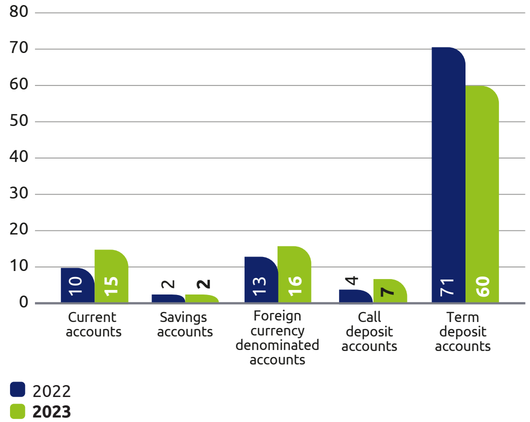
Deposits from customers
(BWP million)



1 Restated 2022. For details, see note 43 in the Financial Statements section.

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.

Deposits from customers
(%)



Our products and services

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

Retail banking

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

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

Cards
- Visa debit cards

Payments
- EFT/RTGS
- Bank-to-Wallet and Wallet-to-Bank (Orange Money)

Investments
- Fixed deposits
- Call deposits

Loans
- Personal loans
- Overdrafts

Electronic banking
- ATMs
- Internet banking
- Mobile banking app

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

Bancassurance
- Credit life insurance
- Life cover insurance
- Funeral cover insurance
- Personal All Risk insurance
- Motor comprehensive insurance
- Household contents insurance

Business, corporate, and institutional banking

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.

Transactional accounts
- Current accounts
- Foreign currency accounts

Debit cards
- Visa debit cards

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

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

Financing and investments
- Investment accounts
- Fixed deposits
- Call accounts

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

Electronic banking
- ATMs
- Internet banking

Bancassurance
- Property insurance
- Vehicle insurance
- Business All Risk insurance
- Keyman insurance

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

Our purpose

Our strategic purpose is to grow sustainable value for the benefit of all our stakeholders.

Our vision
To build a formidable business that passes the test of time

Our mission
Growth is our Business

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

- Our service is our pride
- We have shared responsibility for our business
- We value time and deliver quickly
- We are open and honest, but respectful
- We find simpler ways of doing things
- Integrity and reputation are our wealth

Strategic objectives and goals

The purpose of FMBCH's strategy is to secure a strong regional footprint that will result in growth for the Group's employees, customers, shareholders, communities and other stakeholders while remaining fully compliant and following good governance.

Critical success factors that are underpinned by our values.

- 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 products and services that are both relevant and of value to the different market segments it serves.

CAPITALS AND RESOURCES

	Financial	Manufactured	Human	Social and relationship	Intellectual	Natural
	The pool of funds supporting business operations, including equity finance and debt	*The facilities and general infrastructure that support business operations (tangible assets)*	*The skills and experience of our people enable us to implement our strategy and deliver our products and services*	*The key long-term relationships we have nurtured with stakeholders and service providers*	*The intangibles that sustain the quality of our offering and provide competitive advantage, including our innovations, systems and reputation*	*The natural resources that we manage stringently*
INPUTS	Equity: **BWP698 million** Customer deposits: **BWP5.3 billion**	IT infrastructure Physical access: **5** ATMs, **5** branches, **6** consumer service centres	Employees: **229** Experienced leadership Deep intellectual property	Customers serviced: **28 312** Partnerships with leading financial services brands, including Visa	Intangible assets: **BWP3.5 million** Internal systems, processes and procedures Strong brand and reputation	Specific natural resources are not used as inputs to value creation

Business activities

We offer a comprehensive range of financial products and services that serve the banking needs of our customers.

	Financial	Manufactured	Human	Social and relationship	Intellectual	Natural
OUTPUTS	Profit after tax: **BWP224.6 million** Total operating income: **BWP535.7 million** Total assets: **BWP6.5 billion** ROE: **32.2%**	Premises and equipment costs: **BWP5.9 million** IT costs: **BWP13.6 million**	Staff costs: **BWP102.2 million** Graduate development training programme with a 2023 cohort of **4 trainees**	Over **BWP800 000** in CSR spend	Range of products and services Ongoing investment to improve systems and user experience of customers and employees	Practical solutions to reduce impact

Desired outcomes

Financial	Manufactured	Human	Social and relationship	Intellectual	Natural
▪ A well-capitalised bank that delivers sustainable growth in earnings and profit distributions	▪ Secure and productive working environments ▪ Strategically located branches and electronic banking services that offer convenient customer access ▪ Leading IT platforms offering affordable digital banking solutions	▪ Skilled and experienced workforce motivated to deliver our strategy ▪ Ongoing employee development and training ▪ A well-organised performance management and labour relations framework that enables fair remuneration	▪ Products and services to facilitate financial inclusion across all market sectors for broader society ▪ Ongoing community support, with a focus on health, education and sport	▪ Full legal and regulatory compliance ▪ Efficient, effective delivery of products and services to customers ▪ Strategic brand and marketing initiatives	▪ Responsible use of natural resources ▪ Maintains Green Star and Net Zero Carbon Rating (Level 1: Building Emissions) by the Green Building Council South Africa.

Engaging with our stakeholders

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

KEY STAKEHOLDERS

Customers

28 312
customers
(2022: 22 537)

We strive to understand our customers so that we can speak to them in a relevant way and offer them products that suit their needs.

Our engagement

- Customer feedback, surveys
- Communications
- Hosting events

Their expectations

- Convenient and affordable banking solutions meeting diverse financial needs
- Efficient and effective delivery of financial products and services with ease of access to funds
- A risk-free environment in which to transact
- Reliability, trustworthiness and integrity from a financial services provider

Our response

- Ongoing review and enhancement of banking solutions based on customer feedback
- Deploying technology to enable efficient product and service delivery

Outcomes

- Successfully servicing customer needs
- Convenient access to banking through increasingly digital channels
- Excellent customer service supported by stable and secure IT systems
- Customers who are engaged and connected to our brand

- We are a trusted and respected brand
- Our processes enable service excellence
- We maximise the long-term value for our stakeholders

Related critical success factors

Engaging with our stakeholders (continued)

KEY STAKEHOLDERS

Our people

229
employees
(2022: 222)

We attract, develop and retain high-performing people and reward their contributions fairly and commensurately.

Our engagement

- Employee surveys, training and development, formal and informal meetings and engagements
- Internal communications
- Hosting events
- Team building initiatives

Their expectations

- Excellent employee experience
- Career, learning and development opportunities
- Strong leadership who instil trust and confidence
- Fair remuneration and incentives
- Safety (physical and psychological)

Our response

- Positive culture driven by our six values
- Training and development offerings to embrace technological changes, further employee careers and improve our services and products
- Market-related remuneration
- Culture of integrity to provide psychological safety
- Robust and engaging onboarding process

Outcomes

- A skilled, competent and stable workforce who are enabled to meet client needs
- Culture and value alignment with our people
- Ongoing assessment and improvement of safety (physical and psychological)

- We are a trusted and respected brand
- Our processes enable service excellence
- Our people drive the business

KEY STAKEHOLDERS

Community and the environment

Our success as a business is influenced and supported by the communities around us, in which we have a visible presence where we operate.

Our engagement

- Continuous engagement
- Financial literacy programmes
- Robust solutions offered through digital and physical channels

Their expectations

- Partnership and support to respond to social and environmental issues
- Simple and practical financial advice
- Easy access to financial products and solutions

Our response

- CSR efforts that are responsive to the dynamic needs of the community with a focus on health, education, sports and youth
- Participation in activities that advance financial literacy

Outcomes

- Financial product and service offering with a positive social impact
- Generating economic value within the community
- Advanced synergies with economic and social stakeholders

- We are a trusted and respected brand
- We maximise the long-term value for our stakeholders
- Our people drive the business

Engaging with our stakeholders (continued)

KEY STAKEHOLDERS

Shareholders

We engage with our shareholders to build their confidence in us and ensure access to equity and debt funding.

Our engagement

- Publication of corporate updates and annual reports

Their expectations

- Long-term stability
- Consistent financial performance, growth in asset value and dividend payments
- Sound governance
- Regular reporting and transparent disclosure

Our response

- Strong liquidity and capital ratios in all our markets
- Sound business strategies aimed at delivering growth and value
- Conservatively managed balance sheet
- Strong corporate governance structures and embedded practices

Outcomes

- Continuous and sustained growth in earnings and asset value
- Optimal capital allocation
- Proactive balance sheet management and capital optimisation

- We maximise the long-term value for our stakeholders

KEY STAKEHOLDERS

Governments and regulators

Includes:
Bank of Botswana
Tax and revenue authorities

In the highly regulated banking sector, engagement with governments and regulatory authorities builds confidence, trust and enhances brand reputation and ease of doing business.

Our engagement

- Regular contact and interaction with regulators
- Participation in relevant meetings and conferences
- Provision of accurate and timely audited reports, compliance, risk and business management reports

Their expectations

- Capital adequacy and liquidity
- Risk and cybersecurity management
- Integrity and ethics in interaction and reporting
- Adherence to minimum regulatory standards and guidelines

Our response

- Performing above the minimum regulatory and prudential standards
- Being a better corporate citizen
- Mitigating risk across the business
- Aligning to local and international financial reporting standards

Outcomes

- Positive approval from regulators in all markets
- Banking licences remain in force
- We enjoy a good reputation and standing in the region

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

Engaging with our stakeholders (continued)

KEY STAKEHOLDERS

Business partners

Includes:

Technology and infrastructure
Fintechs
Data and security services
Corporate services

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

Our engagement

- Entrepreneurial engagement
- Regular business interactions and engagements
- Non-disclosure agreements

Their expectations

- Mutual benefit
- Profitability and business growth
- Ethical business practices
- Transparency and adherence to agreements

Our response

- Partnering with global and regional financial institutions and working closely with development institutions
- We ensure partners are aligned with our strategy and purpose through robust screening and due diligence prior to engagement
- We work with partners with whom we can maximise synergies across our countries

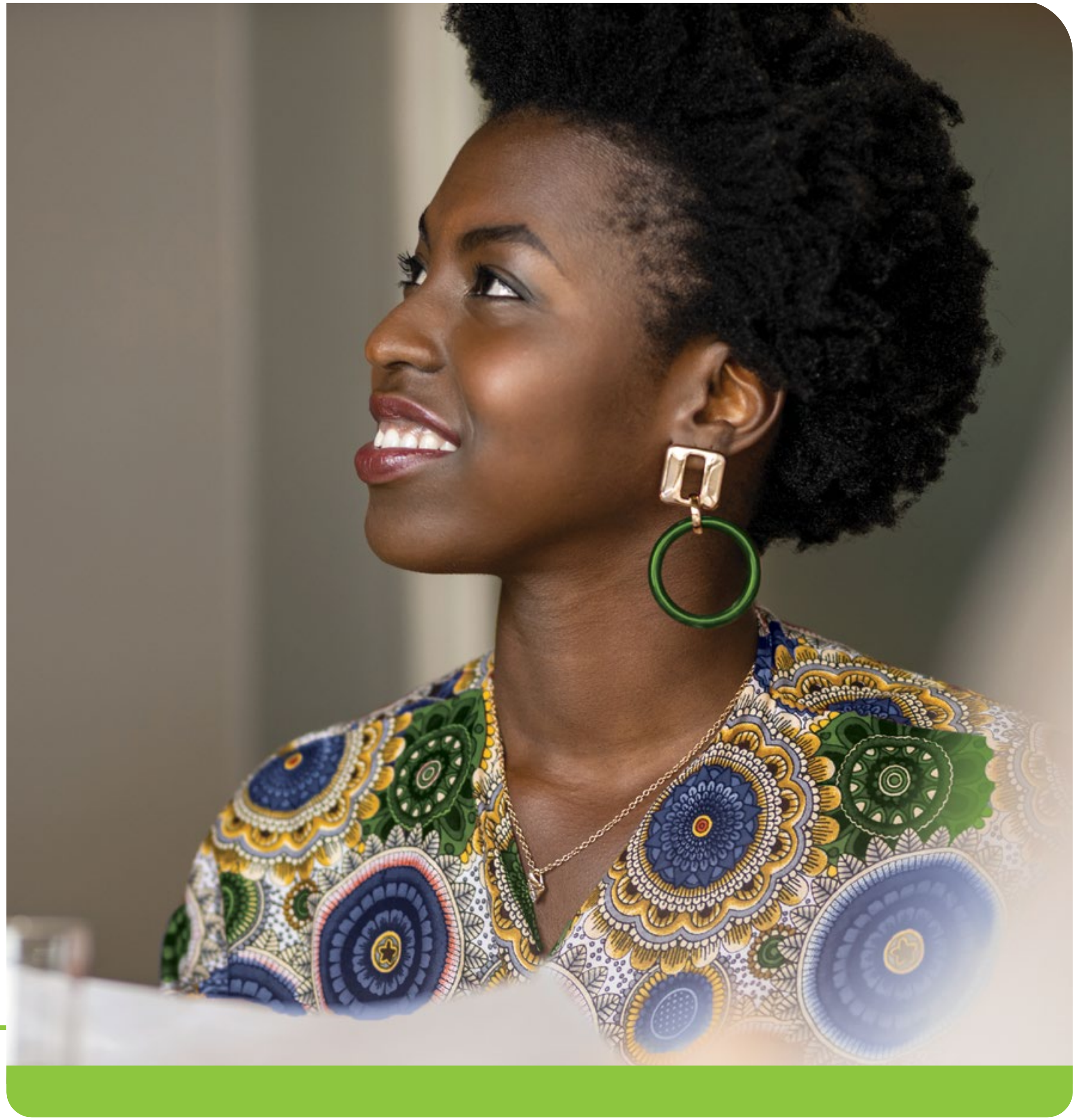
Outcomes

- Enhanced product and service experience for our customers
- Mutual benefit and long-term partnership
- Value to our partners and stakeholders
- Cost-to-income ratio improvement

- Our strategic alliances accelerate our innovation
- Our processes enable service excellence
- We maximise the long-term value for our stakeholders

Performance and Outlook

Interactive content



Richard Wright, *Chairman*

"First Capital Bank produced outstanding 2023 financial results that set multiple records for the Bank. As we celebrate these achievements, we also recognise the invaluable contribution made by FMBcapital Holdings Group who has invested heavily in our business in the form of technology, human capital, and management expertise. A strong foundation has been set from which future growth and success can be achieved."

Chairman's review

Global Economy

The global economy in 2023 encountered a challenging landscape marked by geopolitical tensions and economic uncertainties. While recovery from the pandemic continued in many countries, risks stemming from geopolitical events and inflationary pressures highlighted the need for cautious policymaking and accommodative strategies by Central Banks to sustain economic growth and stability. Global growth is forecasted at a revised 3.2% for both 2024 and 2025. The upward revision was largely due to stronger-than-earlier forecast performance for the US and some large emerging market economies. Nonetheless, the restrained outlook is on account of lower consumer demand associated with higher borrowing costs resulting from monetary policy tightening implemented in 2023, withdrawal of fiscal support amid high debt, the geopolitical tensions, low underlying productivity growth and extreme weather conditions.

Botswana Economy

Operating within this environment, the Botswana economy has been somewhat resilient, achieving gross domestic product (GDP) growth of 2.7% in 2023, down from 5.5% in 2022, with an annual inflation rate of 3.5%. Botswana's macroeconomic policy framework is anchored on prudent macroeconomic policies and robust economic institutions, particularly around managing diamond revenue, which has contributed to a long period of positive economic growth.

The Botswana economy is expected to grow by 4.2% in 2024. This growth will be supported by the prevailing accommodative monetary conditions; improvements in some non-mining sectors, such as water and electricity and finance, insurance and pension funds; reforms to further improve the business environment and the expansionary fiscal policy, among others. However, the output in the non-mining sector is anticipated to be below its potential in the short term. With a benign inflation outlook and an expected loosening of monetary policy, we expect to see real incomes increase in 2024 together with an increase in credit demand.

Strategy

Management's focus has been on enhancing its digital capabilities by improving its online banking services, developing user-friendly mobile apps, and implementing digital solutions, all of which have provided a solid foundation to support the growth of the business. Internal processes have been centralised and streamlined by implementing automation where possible, reducing operational costs and improving efficiencies in its day-to-day operations.

Management continues to invest in customer service excellence, which has improved turnaround times, thereby providing more streamlined, personalised experiences for our customers. In addition, targeted marketing campaigns have been adopted to engage existing customers, offering personalised services while at the same time attracting new customers to the Bank. It is our intention to continue with this strategy, which has proven to be a key differentiator in our segment of the market.

Appreciation

I would like to extend my sincerest appreciation to Hitesh Anadkat for his invaluable leadership and dedication during his tenure as Chairman of the Board. His strategic guidance, insightful vision, have significantly contributed to the achievements reflected in these audited financial results. We are grateful for his tireless efforts and impact on the growth and success of our business. Hitesh will continue to support the business as a board member in his capacity as a Non-Executive Director.

I also want to take a moment to express my sincere appreciation to each of my fellow Board Members for their commitment, dedication, and invaluable contributions to our Board. Your combined insight and collaborative spirit have been instrumental in propelling us forward to new heights. I would also like to recognise our Chief Executive Officer, management team, and staff for executing the strategy, leading to exemplary financial results. Finally, I would like to thank our customers, regulators, and other stakeholders for their continued confidence in us.

Richard Wright
Chairman

Reinette van der Merwe, *Chief Executive Officer*

"The Bank's commitment to creating a reputable brand, which is known for personalised service and prompt delivery, continues to be the focus of our strategic delivery, guiding our efforts. Our success in 2023 is demonstrated by the achievement of a robust set of financial results, which will lay a strong foundation for our future success."

Chief Executive Officer's review

Key Economic Developments

In 2023, Botswana encountered the impact of the ongoing turmoil in the global diamond market, which significantly influenced the country's GDP performance. Real GDP growth slowed to 0.5% year-on-year in Quarter 3, with subdued diamond prices making a substantial recovery in Quarter 4 unlikely. Recent upticks in diamond prices have sparked hopes for acceleration in real GDP growth in 2024, with the Ministry of Finance forecasting GDP growth for 2024 at 4.2% and for 2025 at 5.4%.

The challenges in the diamond market also affected the country's trade balance, particularly in the latter half of 2023, and are expected to persist in the first half of 2024 if diamond prices continue on their current trajectory.

Despite economic headwinds, inflation in Botswana witnessed a marked decline in 2023. The headline inflation rate decelerated from 12.4% in December 2022 to 3.5% in December 2023, attributed to tight monetary policy conditions domestically and internationally. Towards the end of 2023, the Central Bank responded by lowering the key policy rate to 2.4%, citing broadly stable inflation rates within its medium-term target range. Despite this adjustment, a cautious approach to the easing cycle is anticipated, with the Bank forecasting an average inflation rate of 3.2% for 2024 and projecting an increase to 5.0% in 2024.

The regulatory landscape has become more stringent, particularly in financial crime risk management, consumer compliance, and prudential compliance. There is a growing market demand for adherence to new regulations, with the latest addition being compliance with data protection regulations. To remain off the Financial Action Task Force (FATF) grey list, Botswana conducted a comprehensive anti-money laundering, combatting financial terrorism and combatting of financial proliferation (AML/CFT/CFP) National Risk Assessment across major sectors and industries, alongside other initiatives led by the Financial Intelligence Agency. As a key player in the banking industry, we remain committed to contributing to this vital initiative to mitigate the country's financial crime risk exposure.

The evolving regulatory environment has also presented opportunities for the banking sector. The introduction of Pension Fund Investment Rules 2 (PFR 2) has provided a favourable arbitrage, improved market liquidity and reducing funding costs. These regulatory changes have positively impacted the banking industry, contributing to a more robust financial ecosystem.

Strategy and Performance Outcomes

The implementation of our strategy, "Growth is our Business," has yielded significant progress in 2023. We have further embedded our multi-dimensional strategy, focusing on our people, brand, markets, efficiency, and profitability. The centralised structure of our operational supports has been instrumental in delivering our strategic pillars under a unified brand, allowing for cohesive and streamlined efforts across all levels of the bank.

In 2023, First Capital Bank Botswana delivered commendable financial performance with a profit after tax of P225 million, up from P169 million in 2022. Our net operating income saw significant growth from P235 million in 2022 to P319 million, driven by increased banking activities and customer engagements. Despite a challenging economic environment, our total expenses have been well-managed, resulting in a decline in the cost-to-income ratio from 45% in 2022 to 40% in 2023. The net impairment expense has been contained, reflecting our effective risk management practices. Consequently, our profit after tax highlights healthy growth, translating to a strong Return on Equity (ROE) of 32%, underscoring our efficient utilization of shareholders' funds.

Our financial position highlights our sustained growth and stability. Loans and advances have shown remarkable progress, underpinned by strategic lending practices and customer confidence in our offerings. Year-on-year loans and advances growth has been commendable at 16%, reflecting our proactive market engagement and credit policies. Similarly, year-on-year deposit growth has been impressive at 18%, fuelled by increased customer deposits and strategic deployment of liabilities. Our dividend policy continues to reaffirm our commitment to delivering value to our shareholders, reflecting our strong financial health and future growth prospects.

Focused Technology Investments

Our dedication to technology investment remains a cornerstone of our strategy. Throughout 2023, we have enhanced our stability and security infrastructure, ensuring that our offerings meet the evolving expectations of our customers. This includes significant advancements in cybersecurity, data privacy, and information security, which are crucial to maintaining and building customer trust in an increasingly digital world.

We also successfully rolled out advancements in internet banking, introducing enhanced features for a seamless and convenient digital banking experience. Building strategic partnerships, we collaborated with a Mobile Network Operator, Orange Money, further enriching our offerings and providing customers with additional avenues for financial transactions. This initiative aligns with the Bank's goal of staying at the forefront of digital financial services.

Operational Highlights

First Capital Bank Botswana achieved significant milestones in 2023, reinforcing its commitment to innovation, customer-centricity, and community engagement. The launch of new savings accounts expanded the range of financial solutions, catering to the diverse needs of our growing customer base.

In its dedication to fostering strong customer relationships, First Capital Bank organised and participated in focused customer forums, golf days, and other events. These initiatives allowed us to engage directly with customers, understand their needs, and strengthen our position as a trusted financial partner.

A momentous occasion for the Bank was the celebration of its 15th anniversary in Botswana. This milestone reflects our enduring commitment to the local community and our continued growth and success in the dynamic financial landscape of the country.

Notably, in acknowledgement of the Bank's ongoing focus on personalized service, we received several awards in 2023, including:

- Best Corporate Bank Botswana 2023 by World Business Stars Magazine
- Best Retail Bank Botswana 2023 by Finance Derivative
- Best Foreign Exchange Bank Botswana 2023 by Finance Derivative
- Best CSR Initiative Firm 2023 by World Business Outlook

Corporate Citizenship

Our commitment to corporate citizenship in Botswana continued in 2023, featuring impactful initiatives that spanned various sectors. The Bank not only sponsored the Mmabothubela Farmers Day, emphasising community interest in farming for economic revitalisation, but also hosted a successful seminar on livestock farming practices, showcasing our dedication to supporting Botswana's agriculture sector.

In collaboration with Learn To Play, the Bank pledged P50 000 to enhance the social and emotional development of underprivileged children, demonstrating our continued focus on early childhood development and community well-being.

Additionally, First Capital Bank's philanthropic efforts extended to healthcare, with a P184 000 donation that included a branded mini-bus and a Christmas party for the Botswana-Baylor Children's Clinical Centre of Excellence Trust.

Moreover, the Bank further solidified its commitment to community well-being by unveiling the "First Capital Bank Sports Village" in collaboration with 10 by 20 Padel Club Botswana. This ground-breaking initiative, featuring padel tennis, a football court, and inclusive community spaces, exemplifies our holistic approach to corporate social responsibility, fostering sustainable development and well-being in Botswana.

Outlook

Building on the successes of 2023, First Capital Bank is poised for a transformative year ahead. Our commitment to being a trusted and respected brand in Botswana remains steadfast, despite global economic challenges. In 2024, we will continue our focus on enhancing our transactional banking platforms, refining Internet banking and our mobile app to offer seamless and user-friendly experiences. Our dedication to innovation will be reflected in the introduction of cutting-edge products that align with the needs of our customers.

With a strategic emphasis on expanding our transactional customer base and nurturing growth in retail lending, personalised service and quick turnaround times will remain paramount. Leveraging our advancing technological infrastructure, we are well-positioned to deliver sustained and meaningful results throughout the year, contributing to the enhanced well-being and success of our clients.

Signatures were removed for security and privacy reasons.

Acknowledgements

First Capital Bank Botswana's positive performance is a testament to the exceptional quality of our team. I extend my heartfelt appreciation to the dedicated members of our executive team and all our employees for their commitment to navigating the Bank through a period of complexity and uncertainty.

I recognise the invaluable contributions of our loyal customers, regulators and other stakeholders, whose support was pivotal in ensuring business continuity and offering constructive feedback when improvement was needed. We anticipate fortifying these partnerships in 2024.

In conclusion, my gratitude extends to Hitesh Anadkat for his support and leadership during his tenor and a smooth handover to our current Chairperson, Richard Wright, as well as the Board for their role in establishing a solid foundation through their wise counsel and guidance, providing stability for the Bank's continued success.

Reinette van der Merwe
CEO

Lebogang Seleke, *Head of Finance*

"Our financial position highlights our sustained growth and stability. Loans and advances have shown remarkable progress, underpinned by strategic lending practices and customer confidence in our offerings."

Head of Finance's report

Operating Environment

In 2023, we encountered a demanding macroeconomic backdrop that significantly influenced our operational landscape. Despite these challenges, First Capital Bank adeptly navigated the complexities, particularly focusing on the implications for Botswana, Sub-Saharan African economies, and other key regions of operational significance.

The global financial sphere experienced added complexities due to ongoing geopolitical tensions and fragmentation, notably exemplified by conflicts such as those in the Middle East and between Russia and Ukraine. These events contributed to market instability and volatility, posing risks of contagion to other regions. Concurrently, the Central Bank implemented tightening measures to address inflation concerns, amplifying risks within the banking sector. Financial Institutions locally have strived to preserve market share and profitability as the lending landscape has remained tight, with intensified competition exerting downward pressure on margins.

Despite these pressures, First Capital Bank has maintained a focused strategy, ensuring a resilient and sustained performance. This includes active management of the Bank's exposures and a commitment to prudent lending practices, securing our position in a challenging operating environment.

Summary of 2023 Financial Results

2023 financial year has been one of robust growth and strategic advancement for the bank, marked by a significant expansion of our balance sheet. As of December 2023, our total assets surged by an impressive 19%, escalating from P5.4 billion in the previous year to P6.5 billion. This growth trajectory has been largely fuelled by an uptick in loans and advances, with a pronounced focus on the personal loans market where our market share increased by 6%. Importantly, we upheld the quality of our loan portfolio, maintaining a non-performing loan ratio below 2%, underscoring our commitment to vigilant credit risk management and financial stability.

Our strategic emphasis on treasury-related instruments has further bolstered the resilience and stability of our financial standing. The substantial growth in our assets was primarily funded by a remarkable 18% increase in customer deposits, rising from P4.5 billion last year to P5.3 billion this year. This surge in deposits reflects growing customer confidence and trust in our banking services.

The bank recorded a total comprehensive income of P225 million for the year, showcasing a remarkable 31% year-on-year growth. This financial achievement was predominantly driven by a 30% rise in net interest income, in line with the expansion of our loans and treasury portfolios. Additionally, non-interest income increased by 7%, spurred by heightened foreign exchange activities. While our total expenses grew by 12%, this was a strategic investment supporting our growth initiatives.

These achievements highlight our dedication to prudent financial management and operational efficiency. Our strategic initiatives and resilient financial performance not only underscore our ability to adapt and thrive in a dynamic market environment but also position us for sustained growth and value creation for our stakeholders.

Liquidity and Capital Adequacy Ratios

At the close of the year, our Liquid Asset Ratio (LAR) stood at 19.26%, above the regulatory requirement of 10%, demonstrating our ability to meet short-term obligations without compromising financial stability. Additionally, we maintained a Capital Adequacy Ratio (CAR) of 18.09%, well above the regulatory benchmark of 12.5%, ensuring we are well-prepared to continue operations under adverse conditions. Furthermore, our Tier 1 capital ratio closed at 13.55%, against the regulatory minimum of 7.5%, showcasing our solid capital foundation.

Outlook and Prospects

Looking ahead, the short to medium-term outlook remains complex with a lot of upside potential. We anticipate continued challenges in the operating and business context but remain confident in our strategic initiatives and market positioning to navigate these effectively. Our focus will remain on leveraging our strengths, addressing emerging challenges, and seizing growth opportunities to ensure sustained success.

Appreciation

I am deeply grateful to the Board, the Chief Executive Officer, our stakeholders, customers, and all team members for their support and dedication throughout the year. Their trust and commitment have been the cornerstone of our achievements, and together, we look forward to a future filled with potential and continued success. The progress and milestones highlighted in our annual report are a testament to the collaborative efforts and relentless dedication of each one of them. It is through our collective endeavours that we have navigated challenges, seized opportunities, and driven the bank towards sustained growth.

Lebogang Seleke
Head of finance

First Capital Bank Botswana at a glance

	2023	2022	2021	2020	2019
Branches	**5**	5	4	4	4
Consumer Service Centres*	**6**	6	6	6	6
ATMs	**5**	7	5	5	5
Staff	**229**	222	205	188	145
Customers	**28 312**	22 537	17 800	19 046	24 513

** Previously called loan centres*

	2023	2022*	2021	2020	2019
Net interest income*	**444 984 526**	343 241 176	252 240 598	202 385 413	144 616 249
Non-interest income*	**90 690 340**	84 849 001	59 926 313	63 206 308	54 676 784
Operating expenses	**216 849 748**	192 778 979	147 874 270	140 318 532	120 596 795
Profit after tax	**224 597 301**	169 313 203	102 994 875	69 724 470	47 973 783
Loans and advances	**4 232 420 496**	3 658 943 806	2 884 406 349	2 123 331 409	1 961 395 725
Total assets*	**6 454 052 092**	5 443 234 572	5 175 170 574	3 916 925 735	3 633 463 050
Customer deposits	**5 276 513 605**	4 486 475 859	3 713 004 433	3 038 484 162	2 561 974 069
Shareholder funds	**697 632 586**	533 035 285	410 762 785	342 630 144	294 032 792

** Restated*

Details related to prior year restatements are disclosed in Note 43

Environmental, Social and Corporate Governance Practices

Interactive content

Corporate social responsibility

At First Capital Bank, we are dedicated to being exemplary corporate citizens, recognising our responsibility to the communities we serve and our potential to enhance their wellbeing.

First Capital Bank Botswana actively supports programs that yield sustainable outcomes by collaborating with relevant stakeholders in its operational communities. The Bank's commitment to citizenship reflects its steadfast dedication to fostering shared value in the communities it serves, embedded within its corporate culture. In its corporate agenda, First Capital Bank Botswana translates belief into action by engaging in various Corporate Social Responsibility initiatives and sponsorships throughout 2023, with a total contribution exceeding P1 000 000.

Global Money Week 2023

First Capital Bank proudly celebrated **#GlobalMoneyWeek2023**, a global financial literacy campaign aimed at equipping youth with essential financial knowledge and skills. The Bank partnered with **Nanogang CJSS and Botho University** to provide tools, resources, and information on effective money management for the future.

Mmabothubela Farmer's Day

First Capital Bank Botswana was pleased to serve as the primary sponsor of the 2023 Mmabothubela Farmer's Day, an event that brings together farmers from the Tswapong North region and beyond. This sponsorship reflects First Capital Bank Botswana's dedication to supporting the communities in which it operates and provides the Bank with an opportunity to engage in educational initiatives.

Agri Seminar Buan

In collaboration with the **Ministry of Agriculture** and the **Botswana University of Agriculture and Natural Resources** (BUAN), First Capital Bank hosted a seminar bringing together agricultural experts, thought leaders, and industry professionals. With over 160 attendees, the seminar facilitated insightful discussions on sustainable livestock farming practices, fostering peer-to-peer learning and practical engagement.

> "First Capital Bank recognises the critical role that agriculture plays in the economy and we are committed to supporting the growth and development of this sector through initiatives that drive innovation in the sector and promote sustainable development and economic growth. In 2023, we invested over P800 000 in communities through our CSR spend."

Reinette van der Merwe, First Capital Bank CEO

Corporate social responsibility (continued)

World AIDS Day

In observance of **World AIDS Day**, First Capital Bank partnered with the **Baylor Children's Clinical Centre of Excellence Trust** to donate a **vehicle and 150 gifts**, making a meaningful impact on the lives of children, adolescents, and young adults across Botswana.

"We believe that investing in early childhood development is crucial for building a strong foundation for the future of our communities. By investing in the education and wellbeing of children in Botswana, we strive to create lasting change and contribute to the growth and prosperity of our nation."

Reinette van der Merwe, First Capital Bank CEO

Learn to Play Mindful Play

First Capital Bank pledged **P50 000** to support **Learn To Play Mindful Play** initiatives, aimed at enhancing the social and emotional development of children in underprivileged communities. Building on our existing partnership, these funds will ensure over **450 children across 11 communities** in Botswana benefit from daily mindful play activities and access to high-quality play-based education.

Oketsa Compassion

The Corporate and CBD Branch teams spearheaded the 'Oketsa Compassion' project, an initiative aimed at providing support to **Pabalelong Home of Love and Care**. Established in 2010, this hospice offers delicate care to terminally ill patients, alongside spiritual support, counselling, and physiotherapy. The teams made a donation of clinical supplies and actively participated in cleaning the hospice courtyard.

"First Capital Bank employees have the opportunity to create teams and lead their own philanthropic initiatives, backed by a budget of P25 000. These initiatives align with the Bank's CSR focus areas, encompassing sports, health, education, and youth empowerment. We are privileged to have the opportunity to support Pabalelong Home of Love and Care Hospice. Our team is dedicated to making a positive difference in the lives of those in need, and this initiative aligns perfectly with our values. By collaborating with the hospice, we aim to bring comfort and support to the patients and their families during challenging times."

Mr. Pontsho Koosaletse,
Head of Corporate, First Capital Bank

Oketsa Kopano

The Gaborone CBD West-wing team generously donated to **Hatsalatladi Primary School**, providing clothing, shoes, school supplies, and essential items to support the educational journey of every student.

Oketsa Letseno

The **Mogoditshane branch** hosted an event to support local vendors, providing resources to enhance their entrepreneurial efforts. At the event, 15 vendors were given new umbrellas and stock to bolster their businesses.

Oketsa Thotloetso

The Consumer Service Centres adopted **Botlhapatlou Primary School**, donating essential supplies such as toiletries, school jerseys, socks, and a new printer to support the students' education.

Oketsa Tshwaraganyo

The Capital House teams initiated a project in **Taung village**, providing food hampers and livestock donations to support entrepreneurship and holistic community development.

Adopt a Tailor

The **Gaborone CBD team** focused on **supporting local artisans** by uplifting their businesses. A tailor facing challenges was **provided with tools and support to diversify offerings** and establish a robust online presence for long-term success.

Gamodubo donation drive

The **Consumer Lending, Collections, and Clearing teams** donated **ICT resources** to ignite empowerment and innovation for Gamodubu's children in today's digitised world. In partnership with Nashua and the Botswana Digital Innovation Hub, printers, laptops, and internet access opened up limitless digital horizons.

"Our priority is to help children develop the resilience and executive functioning to cope with, succeed and thrive in formal schooling and uncertain situations that burden their lives of crisis and poverty."

Priyanka Handa Ram, Learn To Play founder

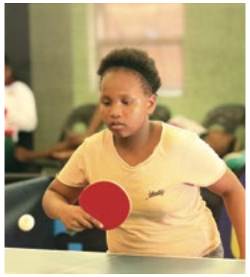
Maun Senior Secondary School

Maun Branch donated **three 5 000-liter Jojo tanks** and accessories to **Maun Senior Secondary School,** addressing water shortages and transforming the lives of **1 900 students**.

Sponsorships

BTTA Table Tennis sponsorship

First Capital Bank continues to support the **Botswana Table Tennis Association** (BTTA) by sponsoring **BWP50 000** to the growth and development of table tennis in Botswana.



First Capital Bank Sports Village

As the title sponsor of the **10 by 20 Padel Club Botswana**, the Bank proudly introduced the **First Capital Bank Sports Village**. This state-of-the-art facility boasts padel tennis courts, a five-a-side football court, a pro shop, café, and children's playground, all designed to advance sports engagement within our community.

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.

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.

Chairman

1 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.

Non-executive

2 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.

3 Hitesh Anadkat

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.

4 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.

5 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 COMMITTEES

- Risk
- Credit
- Appointments and Remuneration
- Audit
- IT

* *as at 31 December 2023.*

Non-executive

6

6 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.

7

7 Moemedi Tafa

Independent Non-executive Director

Appointed 24 February 2023

BCom Law, LLB (University of Pretoria)

Moemedi is a practicing attorney and a partner at leading corporate-commercial law firm, Armstrongs Attorneys. He co-heads the Armstrongs Litigation Department and additionally oversees the Employment and Labour Law Practice. He is regularly involved in several high-end corporate litigation matters and undertakes corporate-commercial and labour litigation in the High Court, the Industrial Court and Court of Appeal.

8

8 Lynette E. Armstrong

Independent Non-executive Director

Appointed 24 February 2023

CA, Accelerated Development Programme (London Business School), Management Development Programme (University of Stellenbosch Business School), Strategic Marketing Management Programme (University of Witwatersrand), Executive Personal Development Coaching Programme (University of Witwatersrand)

Lynette is a highly accomplished Senior Mining and Finance Executive with over 24 years of financial and business experience within the Botswana Exploration and Mining Industry. Lynette is a Chartered Accountant by profession and has completed several strategic leadership development programmes globally. Lynette has solid board governance experience, having served as Chairperson of Botswana Accountancy Oversight Authority. She has also served on the boards for Debswana Mining Company, Morupule Coal Mining Company, Debswana Pension Fund and other companies in Botswana.

9

9 Mahube Mpugwa

Independent Non-executive Director

Appointed 18 August 2023

Bachelor of Arts (Hons), Master's of Business Administration

Mahube has worked in various leadership positions in the oil industry for over 20 years and is currently the Chairman of the Botswana Oil Industry Association. He is a Chevening scholar and an MBA graduate. Additionally, he holds a BA (Hons) degree and has completed several executive leadership programmes. He is currently the CEO and Director of Kwa Nokeng Oil and has previously held various leadership positions within the then BP Botswana and BP South Africa in sales and strategic communications. Mahube currently sits on the boards of some listed companies in Botswana.

Executive

10

10 Reinette van der Merwe

Executive Director – Chief Executive Officer

Appointed 04 January 2021

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

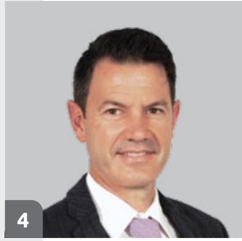
Reinette is a Chartered Accountant and brings over 30 years of financial services experience in international markets and across multiple African countries, covering a number of areas including retail and corporate banking.

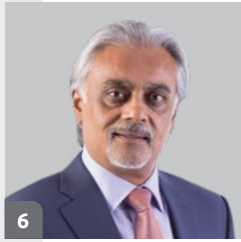
BOARD COMMITTEES

- Risk
- Credit
- Appointments and Remuneration
- Audit
- IT

Board of directors (continued)

Other Institutions in which he/she is a Director





1 Richard Wright
Non-executive Director
Appointed 09 July 2019

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

2 Hitesh Anadkat
Non-executive Director
Appointed 05 October 2005

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

3 Lynette E. Armstrong
Non-executive Director
Appointed 24 February 2023

- None

4 Shawn Bruwer
Non-executive Director
Appointed 16 November 2020

- 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

5 Mahube Mpugwa
Independent Non-executive Director
Appointed 18 August 2023

- Sefalana Holding Company Limited
- Granymede Holdings (Pty) Ltd
- Brandywine Investment (Pty) Ltd
- The Karoo (Pty) Ltd
- Eterne (Pty) Ltd
- Master Timber (Pty) Ltd
- Lewis Stores Botswana (Pty) Ltd
- Kwa Nokeng Oil Group of Companies

6 Hemantkumar Patel
Non-executive Director
Appointed 11 May 2005

- 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)

7 Moemedi Tafa
Non-executive Director
Appointed 24 February 2023

- SDDS (Botswana) Pty Ltd
- High Ventures (Pty) Ltd
- House of Gache (Pty) Ltd

8 Judy Tsonope
Non-executive Director
Appointed 28 September 2015

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

9 Leutlwetse Tumelo
Non-executive Director
Appointed 12 May 2022

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

10 Reinette van der Merwe
Executive Director – Chief Executive Officer
Appointed 04 January 2021

- 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.

COMMITTEES	Audit	Credit	Risk	Appointments and remuneration	IT
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 at least once a quarter.	Comprises three Non-executive Directors Meets at least once a quarter.	Comprises three Non-executive Directors Meets at least once a quarter.	Comprises three Non-executive Directors Meets at least once a quarter.	Comprises three Non-executive Directors Meets at least once a quarter.

Executive management

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

Reinette van der Merwe

Chief Executive Officer

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

Lebogang Seleke

Head of Finance

Chartered Certified Accountant (ACCA), Associate Certified Professional Accountant (BICA), MSc Professional Accountancy (University of London), Senior Management Development Programme (University of Stellenbosch), BAcc (University of Botswana)

Pontsho Koosaletse

Head of Corporate

MSc (Financial Management) (Edinburgh Business School), Bachelor of finance (University of Botswana) ACI dealing certificate and GLDP (GIBS) Associate retail banker (RBA International UK)

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; Bachelor's Degree in Agriculture Science (India)

Goitseone Moshabela

Head of Human Resources

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

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)

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

Sandisiwe Dube

Country Risk Manager

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

One Gosekwang

Head of Internal Audit

BA (Accounting), member of Institute of Chartered Accountants in England and Wales, member of BICA and 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 (ERMF) has set the Bank on a journey of continuous improvement with a key focus towards sustainability and long-term performance. The ERMF 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 face growing challenges. Since 2023, macroeconomic conditions have been particularly difficult for the sector, with the first quarter marked by tightened liquidity, though this has since improved. A significant risk factor for 2024 lies in the performance of the diamond sector, which could impact Botswana's overall economic performance. Global conditions in the diamond industry were unfavourable in Quarter 3 of 2023 and into 2024. Moreover, the global shift towards digital operations has brought forth a multitude of digital risks, previously considered distant, now materialised. Our strategy remains centered on businesses that yield favorable risk-adjusted returns. The presence of an ERMF helps mitigate operational shocks. Enhanced governance structures and risk awareness have bolstered our preparedness across all business lines to tackle new and emerging challenges.

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.

Risk universe

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

The Bank operates **three lines of defence** in risk management:

1 First line of defence — **Management**
The owners and managers of risks

2 Second line of defence — **Risk and compliance**
Overseers and controllers of risks

3 Third line of defence — **Internal audit**
Independent assurance

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

Consolidated and Separate Annual Financial Statements

Interactive content

Directors' responsibility statement

The Directors of First Capital Bank Limited ("the Company" or "the Bank") and its subsidiary, Jetwig Enterprises (Proprietary) Limited, together referred to as "the Group" are responsible for the preparation of the Consolidated and Separate financial statements comprising the statements of financial position as at 31 December 2023, 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 (IFRS) Accounting 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 assessed 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 IFRS.

Approval of the annual financial statements

The Consolidated and Separate financial statements as identified in the first paragraph, were approved and authorised for issuance by the Board of Directors on 26 April 2024 and signed on their behalf by:

Lynette E. Armstrong
Director

L. 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 2023.

Business activities

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

The Bank holds all the shares in Jetwig Enterprises Proprietary Limited trading as First Capital Bank Insurance Agency, an insurance agency that operates principally in Botswana. The insurance agency is regulated by Non-Bank Financial Institutions Regulatory Authority. The total investment in the subsidiary company is P1 000 000 (2022: P1 000 000).

Stated capital

The Bank's stated capital comprises 101 833 333 (2022: 101 833 333) issued and fully paid ordinary shares of no par value.

The shareholding at the reporting date was:

Voting rights (including preference shares)

FMBcapital Holdings Plc (Mauritius)	**51.13%**	Meeta Anadkat	**1.99%**
Everglades Botswana (Pty) Ltd	**26.23%**	Dillon Hitesh Anadkat	**0.80%**
Premier Capital (Mauritius) Ltd	**12.99%**	Sheena Anadkat	**0.80%**
Prime Bank Ltd (Kenya)	**5.26%**	Shaun Anadkat	**0.80%**

Beneficial ownership (ordinary shares)

FMBcapital Holdings Plc (Mauritius)	**38.60%**	Meeta Anadkat	**2.50%**
Everglades Botswana (Pty) Ltd	**32.96%**	Dillon Hitesh Anadkat	**1.00%**
Premier Capital (Mauritius) Ltd	**16.32%**	Sheena Anadkat	**1.00%**
Prime Bank Ltd (Kenya)	**6.62%**	Shaun Anadkat	**1.00%**

Preference shares

26 132 000 Preference shares of no par value (2022: 26 132 000).

Events after the reporting date

Other than the events described in note 44, 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 a Non-executive Chairman, seven (7) Non-executive Directors, and one (1) Executive Director, the Chief Executive Officer. During the year, two Non-executive Directors resigned, namely Daniel Swabi and Stephen D. Pezarro. Additionally, three Non-executive directors, namely Lynette E. Armstrong, Moemedi J. Tafa, and Mahube Mpugwa joined the Board bringing the total number of Non-executive Directors to nine (9). Of the nine (9) Non-executive Directors, seven (7) are independent. The Bank operates as a subsidiary of a Mauritius domiciled holding company and has adopted the National Code of Corporate Governance for Mauritius (2016) as its governance code.

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

Board Meetings Attendance 2023

Member	7 Mar 23	14 Jun 23	8 Sep 23	21 Nov 23
Mr. RC Wright – Chairman	✓	✓	✓	✓
Mr. HN Anadkat	✓	✓	✓	✓
Mr. HK Patel	X	✓	✓	✓
Mr. SD Pezarro	✓	N/A	N/A	N/A
Mr. D Swabi	✓	N/A	N/A	N/A
Mrs. JN Tsonope	✓	✓	✓	✓
Mr. SS Bruwer	✓	✓	✓	✓
Mr. L Tumelo	✓	✓	✓	✓
Mrs. RE van der Merwe	✓	✓	✓	✓
Mr. M Mpugwa	N/A	N/A	✓	✓
Mr. MJ Tafa	X	✓	✓	✓
Mrs. LE Armstrong	✓	✓	✓	✓

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. Mrs. LE Armstrong (Chairperson)	1. Mr. HK Patel (Chairperson)	1. Mr. M Mpugwa (Chairperson)	1. Mr. HN Anadkat (Chairperson)	1. Mr. SS Bruwer (Chairperson)
2. Mrs. JN Tsonope	2. Mr. HN. Anadkat	2. Mr. MJ Tafa	2. Mr. RC Wright	2. Mr. M Mpugwa
3. Mr. L Tumelo	3. Mr. SS Bruwer	3. Mr. HK Patel	3. Mr. MJ Tafa	3. Mr. HK Patel

Directors' shareholdings/interests

1. Mr. HN Anadkat owns 33.64% of the Bank's ultimate beneficial ownership, primarily through his interest in Premier Capital (Mauritius) Limited and FMBcapital Holdings Plc (Mauritius) all of which have shares in the Bank.
2. Mr. HK 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 and are eligible for re-election up to a period of 10 years. Non-executive Directors below retired by rotation in June 2023 and were re-elected.

(i) Hitesh N Anadkat
(ii) Hemantkumar K Patel
(iii) Richard C Wright

All new directors participate in an induction programme as per the Board Charter. The following Non-executive Directors, were appointed to the board during the financial year:

(i) Mrs. Lynette Elizabeth Armstrong, on 24 February 2023.
(ii) Mr. Moemedi Junior Tafa, on 24 February 2023.
(iii) Mr. Mahube Mpugwa, on 18 August 2023.

Directors Remuneration

Total remuneration for the year

Name	Directors' fees (P)
Executive Director	
RE van der Merwe	6 815 377
Non-executive Directors	
RC Wright – Chairman	416 600
HN Anadkat	181 346
HK Patel	281 531
SD Pezarro*	84 630
D Swabi*	39 630
JN Tsonope	161 531
SS Bruwer	161 531
L Tumelo	161 531
M Mpugwa**	81 633
MJ Tafa	121 901
LE Armstrong	161 531
Total for non-executive Directors	**1 853 397**

Key: * *Resigned from the Board on the 7th of March 2023.*
** *Appointed to the Board on the 18th of August 2023.*

Independent auditors' report

To the shareholders of First Capital Bank limited

Opinion

We have audited the consolidated and separate financial statements of First Capital Bank Limited (the "Company") and its subsidiary, Jetwig Enterprises Proprietary Limited, (together, the ''Group'') set out on pages 46 to 134 which comprise the Group and Company's statements of financial position as at 31 December 2023, and the Group and Company's statements of profit or loss and other comprehensive income, Group and Company's statements of changes in equity and Group and Company's statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including material accounting information.

In our opinion, the Group and Company's financial statements give a true and fair view of the consolidated and separate financial position of the Group and Company as at 31 December 2023, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Banking Act (Cap 46:04).

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' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing the audit of the Group and the Company and in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing the audit of the Group and Company and in Botswana. 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

The Key Audit Matter applies to both the audit of the consolidated and separate financial statements.

Key Audit Matter	How the matter was addressed in the audit

Expected credit losses (ECLs) relating to loans and advances to customers (Group and Company)

The disclosures associated with the key audit matter are set out in the consolidated and separate financial statements in the following notes:

- Note 4 (c) – Impairment of financial assets/Expected credit losses measurement/Expected credit loss (ECL) modelling approach/Low risk financial instruments/Restructures/ modifications of loans and advances
- Note 5 – Financial risk management
- Note 9 – Loans and advances to customers
- Note 31 – Net impairment losses on financial instruments

Key Audit Matter

Expected credit losses (ECLs) relating to loans and advances to customers represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. The ECLs are calculated on a portfolio basis for loans and advances of a similar nature and on an individual basis for significant loans and advances.

The Group and Company recognised gross loans and advances to customers at 31 December 2023 of BWP4 334 992 745 (2022: BWP3 753 302 344) with a related ECL allowance of BWP102 572 249 at the same date (2022: BWP94 358 538). The Group and Company's net loans and advances contributed 66% (2022: 66%) of the Group and Company's total assets at the reporting date and the ECL contributed 2.4% (2022: 2.5%) of Group and Company's gross loans and advances at the reporting date.

Modelled ECL allowance

The Company's loans and advances portfolio is disaggregated into three sections - Corporate loan book, Retail loan book and unmodelled loan book. The ECL allowance for two of these sections is calculated using a modelled approach. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters.

The ECL allowance for loans and advances not calculated using a modelled approach is calculated by applying adjusted PD, EAD and LGD model parameters obtained from the modelled results. The adjustments from the modelled PD, EAD and LGD results applied to this part of the loans and advances portfolio requires significant management judgement.

Significant management judgement is required to evaluate probability weighted recovery scenarios, collateral valuations, and time to collect.

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

How the matter was addressed in the audit

Our audit procedures included, but were not limited to:

We have obtained an understanding of the Group and Company's processes and tested the operating effectiveness of the Company's internal controls over credit origination, credit monitoring and credit remediation, as well as the governance process over the approval and review of the Company's ECL models, including management adjustments.

Modelled ECL allowance

With the assistance of our internal Quantitative Specialists:

- We assessed the conceptual soundness of the model construct and statistical/mathematical techniques applied as well as the reasonableness underpinning significant assumptions applied with reference to the requirements of IFRS 9 - Financial instruments, in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models.
- We independently reperformed the model calculations as per the model documentation (model build steps) and independently recomputed the PD, EAD and LGD parameters using the model build steps and managements inputs, to assess the reasonableness of the ECL model outputs.
- Where exceptions were noted in the macroeconomic variables applied, our quantitative specialists developed a PD challenger model to evaluate the impact using the independently computed variables for such (obtained from our internal economics specialists).
- We assessed the reasonableness of the adjustments made by management to the PD, EAD and LGD parameters applied to the unmodelled loan portfolio by comparing these adjustments to the Group and Company's historical experience and the PD, EAD and LGD parameters applied to similar loans and advances.
- We performed a sensitivity analysis of the model outputs using the forward-looking information provided by our economic advisory specialists.
- We assessed the data inputs used in the ECL models by reconciling the data inputs to the core banking system, customer agreements and collateral valuation reports.
- We tested the Group and Company's legal right to the collateral for a sample of accounts by inspecting legal agreements and valuation reports supporting the collateral valuations included in the Group and Company's ECL models.

Key Audit Matter	How the matter was addressed in the audit
Macro-economic forecasts incorporated in impairment models The Group and Company incorporates forward looking information through a scenario matrix which comprises macroeconomic variables such as inflation, general government net debt and unemployment rates. These require management judgement, given the uncertain macroeconomic environment and the complexity of incorporating these scenario forecasts and probability weightings into the estimation of ECL. The calculation of ECLs relating to loans and advances to customers was identified as a key audit matter considering the significance to the consolidated and separate financial statements and the high degree of estimation uncertainty due to significant judgements and assumptions applied in the calculation which required increased audit effort and the use of specialists.	**Modelled ECL allowance (continued)** ▪ We also assessed, on a sample basis, the competency and independence of specialists appointed by the Company to determine the value of the collateral by reviewing the specialists' qualifications and registrations to professional bodies and the engagement contracts agreed with these specialists. For independence, we verified that the valuers have no interest or loans with First Capital Bank. ▪ We reviewed on a sample basis, the valuation reports obtained from these specialists and benchmarked the discount rates and asset valuations reported by these specialists against discount rates and asset valuations for similar assets obtained from our own internal valuation specialists and other valuation specialists for similar assets in the same geographical areas. ▪ We assessed the appropriateness of the Group and Company's SICR methodologies and tested the stage allocations of loans and advances to customers to stage 1, 2 or 3 in accordance with International Financial Reporting Standards. Our procedures included obtaining and testing loan arrears reports, ensuring balances are classified in the appropriate stage based on the days past due and credit risk assessments performed and risk ratings determined for individual accounts. We assessed the risk ratings for a sample of accounts by reviewing the financial statements received from customers, comparing the risk ratings to the Company's credit watchlist, and reviewing the payment behaviour for the selected accounts. We compared the risk ratings for these selected accounts to management's SICR assessment. **Macro-economic forecasts** With the assistance from our economic advisory specialists, we: ▪ Obtained an understanding of how the economic forecasts, as part of forward-looking information, are derived and incorporated in the models. ▪ Evaluated the adequacy and completeness of economic assumptions used in the models by benchmarking these forecasts for a sample of macroeconomic variables to external sources. We assessed the adequacy and completeness of the financial statement disclosures included in the Group and Company's financial statements relating to the expected credit losses as noted in the notes above to determine compliance with IFRS 9 - Financial instruments.

Other Matter

The consolidated and separate financial statements of the Group and Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 14 April 2023.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 137-page document titled "First Capital Bank Limited 2023 Annual Report" which includes the Directors' responsibility statement, Directors' report, and the information on capital risk management disclosed in Note 5(d) on page 97, obtained prior to the date of this report and the First Capital Bank Limited Annual Report which is expected to be made available to us after that date. Other information does not include the financial statements and the 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, 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 of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Banking Act (Cap 46:04) 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 Group and 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.

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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 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 consolidated and separate 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 and/or the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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.

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

Ernst + Young

Ernst & Young
Practicing member: Francois Roos (Partner)
Certified Auditor
Membership number: CAP 0013 2024
Gaborone

29 April 2024

Statements of financial position

as at 31 December 2023

Amounts in Pula	Note	Group 2023	Group 2022 Restated*	Company 2023	Company 2022 Restated*
ASSETS					
Cash and cash equivalents	6	**1 666 621 978**	1 489 385 521	**1 666 621 978**	1 489 385 521
Derivative financial assets*	8	**30 370 142**	31 771 613	**30 370 142**	31 771 613
Investment securities	7	**365 558 494**	147 560 498	**365 558 494**	147 560 498
Taxation refundable		**10 427 563**	–	**9 319 827**	–
Other assets*	10	**31 950 741**	30 520 102	**30 757 645**	30 164 905
Deferred tax assets	17	**47 704**	1 601	**–**	–
Right-of-use assets	12	**7 694 694**	7 184 878	**7 694 694**	7 184 878
Loans and advances to customers	9	**4 232 420 496**	3 658 943 806	**4 232 420 496**	3 658 943 806
Investment in subsidiary company	41	**–**	–	**1 000 000**	1 000 000
Property, equipment, and intangible assets	11	**108 960 280**	77 866 553	**108 960 280**	77 866 553
Total assets		**6 454 052 092**	5 443 234 572	**6 452 703 556**	5 443 877 774
LIABILITIES					
Deposits from customers	13	**5 276 513 605**	4 486 475 859	**5 288 468 390**	4 495 307 483
Balances due to other banks*	14	**175 601 273**	127 551 020	**175 601 273**	127 551 020
Derivative financial liabilities*	8	**12 047 176**	17 874 053	**12 047 176**	17 874 053
Lease liabilities	15	**8 861 153**	7 811 713	**8 861 153**	7 811 713
Other liabilities*	16	**78 058 773**	69 177 437	**77 684 981**	69 041 776
Taxation payable		**–**	4 506 147	**–**	3 615 503
Deferred tax liabilities	17	**20 742 590**	11 913 537	**20 742 590**	11 913 537
Subordinated debt	18	**158 462 936**	158 757 521	**158 462 936**	158 757 521
Preference shares	19	**26 132 000**	26 132 000	**26 132 000**	26 132 000
Total liabilities		**5 756 419 506**	4 910 199 287	**5 768 000 499**	4 918 004 606
EQUITY					
Stated capital	20	**140 000 000**	140 000 000	**140 000 000**	140 000 000
Credit loss reserve	21	**15 289 391**	15 289 391	**15 289 391**	15 289 391
Property revaluation reserve	11	**4 932 535**	4 932 535	**4 932 535**	4 932 535
Retained earnings		**537 410 660**	372 813 359	**524 481 131**	365 651 242
Total equity		**697 632 586**	533 035 285	**684 703 057**	525 873 168
Total liabilities and equity		**6 454 052 092**	5 443 234 572	**6 452 703 556**	5 443 877 774

The order of liquidity of assets presented in the statement of financial position was changed from the order presented in prior year to align with the correct order of liquidity. The presentation enables better understanding of the short-term financial position and supports effective decision-making and risk management by stakeholders but does not change the amounts of the assets presented in the statement of financial position. Refer to note 43 for details regarding the change.

* *Details related to prior year restatements are disclosed in note 43.*

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2023

		Group		Company	
Amounts in Pula	Note	2023	2022 Restated*	2023	2022 Restated*
Interest income at effective interest rate*	22	**705 285 836**	520 013 043	**705 285 836**	520 013 043
Interest expense at effective interest rate*	23	**(260 301 310)**	(176 771 867)	**(260 471 322)**	(176 771 867)
Net interest income*		**444 984 526**	343 241 176	**444 814 514**	343 241 176
Net fee and commission income*	24	**28 316 951**	27 007 562	**19 591 271**	20 622 377
Net gain on foreign exchange transactions*	25	**32 289 840**	28 692 895	**32 289 840**	28 692 895
Net gain on derivative financial instruments*	8	**27 519 018**	24 645 895	**27 519 018**	24 645 895
Other operating income	26	**2 564 531**	4 502 649	**3 297 935**	5 081 436
Non-interest income		**90 690 340**	84 849 001	**82 698 064**	79 042 603
Total operating income		**535 674 866**	428 090 177	**527 512 578**	422 283 779
Staff costs	27	**(102 241 074)**	(82 622 268)	**(101 618 852)**	(82 622 268)
Premises and equipment costs	28	**(5 948 958)**	(4 204 162)	**(5 948 958)**	(4 204 162)
Information technology costs	29	**(13 623 129)**	(11 358 482)	**(13 623 129)**	(11 358 482)
Depreciation and amortisation	11&12	**(12 696 309)**	(11 530 316)	**(12 696 309)**	(11 530 316)
Administration and general expenses	30	**(44 689 273)**	(58 010 318)	**(44 551 150)**	(58 138 028)
Shared services costs		**(37 651 005)**	(25 053 433)	**(37 651 005)**	(25 053 433)
Total operating expenses		**(216 849 748)**	(192 778 979)	**(216 089 403)**	(192 906 689)
Profit before impairment losses on financial assets		**318 825 118**	235 311 198	**311 423 175**	229 377 090
Net impairment losses on financial assets	31	**(25 499 563)**	(17 947 719)	**(25 499 563)**	(17 947 719)
Profit before income tax expense		**293 325 555**	217 363 479	**285 923 612**	211 429 371
Income tax expense	32	**(68 728 254)**	(48 050 276)	**(67 093 723)**	(46 747 974)
Profit for the year		**224 597 301**	169 313 203	**218 829 889**	164 681 397
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss					
Revaluation surplus on fixed assets		**–**	2 469 774	**–**	2 469 774
Deferred tax on revaluation of property		**–**	(543 350)	**–**	(543 350)
Total other comprehensive income for the year		**–**	1 926 424	**–**	1 926 424
Total comprehensive income for the year		**224 597 301**	171 239 627	**218 829 889**	166 607 821
Basic earnings per share in Pula	33	**2.2055**	1.6627		

* *Details related to prior year restatements are disclosed in note 43.*

Statements of changes in equity

for the year ended 31 December 2023

Group

Amounts in Pula	Stated capital	Property revaluation reserve	Credit loss reserve	Retained earnings	Total equity
Balance as 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**
Profit for the year	**–**	**–**	**–**	**224 597 301**	**224 597 301**
Transactions with owners of the Bank					
Dividends paid	**–**	**–**	**–**	**(60 000 000)**	**(60 000 000)**
Balance as at 31 December 2023	**140 000 000**	**4 932 535**	**15 289 391**	**537 410 660**	**697 632 586**

Company

Amounts in Pula	Stated capital	Property revaluation reserve	Credit loss reserve	Retained earnings	Total equity
Balance as at 1 January 2022	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 as at 31 December 2022	**140 000 000**	**4 932 535**	**15 289 391**	**365 651 242**	**525 873 168**
Profit for the year	**–**	**–**	**–**	**218 829 889**	**218 829 889**
Transactions with owners of the bank					
Dividends paid	**–**	**–**	**–**	**(60 000 000)**	**(60 000 000)**
Balance as at 31 December 2023	**140 000 000**	**4 932 535**	**15 289 391**	**524 481 131**	**684 703 057**

Statements of cash flows

for the year ended 31 December 2023

Amounts in Pula	Note	Group 2023	Group 2022 Restated*	Company 2023	Company 2022 Restated*
Cash flows from operating activities					
Interest and non-interest income*	34	**749 239 572**	602 780 452	**741 247 296**	596 974 054
Interest paid*	35	**(234 497 626)**	(133 192 717)	**(234 667 638)**	(133 192 717)
Cash paid to suppliers and employees*	36	**(194 842 406)**	(152 724 413)	**(193 436 896)**	(153 533 019)
Income taxes paid		**(74 833 617)**	(36 417 241)	**(71 200 000)**	(35 400 000)
		245 065 923	280 446 081	**241 942 762**	274 848 318
Net movement in loans and advances to customers	37	**(584 494 440)**	(788 941 415)	**(584 494 440)**	(788 941 415)
Net movement in deposit balances	37	**766 027 168**	730 664 657	**769 150 329**	739 496 281
Net movement in balances due to other banks*		**46 711 714**	44 427 253	**46 711 714**	44 427 253
Net cash flows from operating activities		**473 310 365**	266 596 576	**473 310 365**	269 830 437
Cash flows from investing activities					
Net proceeds from disposal/(net acquisition) of investment securities		**(219 549 205)**	104 338 075	**(219 549 205)**	104 338 075
Subscription of shares in subsidiary company		**–**	–	**–**	(970 000)
Proceeds from sale of equipment		**86 647**	60 600	**86 647**	60 600
Acquisition of property, equipment, and intangible assets	11	**(41 188 564)**	(12 621 871)	**(41 188 564)**	(12 621 871)
Net cash flows from investing activities		**(260 651 122)**	91 776 804	**(260 651 122)**	90 806 804
Cash flows to financing activities					
Dividends paid	33	**(60 000 000)**	(51 497 438)	**(60 000 000)**	(51 497 438)
Payments for lease liabilities	15	**(3 025 122)**	(3 141 477)	**(3 025 122)**	(3 141 477)
Repayment of subordinated debt	18	**–**	(30 000 000)	**–**	(30 000 000)
Net cash flows used in financing activities		**(63 025 122)**	(84 638 915)	**(63 025 122)**	(84 638 915)
Net increase in cash and cash equivalents		**149 634 121**	273 734 465	**149 634 121**	275 998 326
Cash and cash equivalents at beginning of the year		**1 489 385 521**	1 226 029 248	**1 489 385 521**	1 223 765 387
Effect of changes in exchange rates		**27 602 336**	(10 378 192)	**27 602 336**	(10 378 192)
Cash and cash equivalents at end of the year	6	**1 666 621 978**	1 489 385 521	**1 666 621 978**	1 489 385 521

** Details related to prior year restatements are disclosed in note 43.*

Notes to the financial statements
for the year ended 31 December 2023

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.

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

The Bank's subsidiary, Jetwig Enterprises (Proprietary) Limited, operates as an insurance agency.

2 Basis of preparation

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

(i) Statement of compliance

The financial statements have been prepared on a going concern basis and in accordance with IFRS and in the manner required by the Banking Act (Chapter 46:04) of Botswana. The Consolidated and Separate financial statements were approved and authorised for issuance by the Directors on 26 April 2024.

(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, except where otherwise stated.

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement is presented in note 5 (b).

(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.

2 Basis of preparation (continued)

(iv) Use of estimates and judgments (continued)

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

- **Expected credit losses relating to financial assets** – refer to note 4 (c) and 5 (a).
- **Revaluation of property** – refer to note 11.
- **Fair values of derivative assets and liabilities** – refer to note 4 (c).
- **IBR applied in the calculation of lease liabilities** – refer to note 4 (p) and note 15.
- **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.

(vi) Consolidated financial statements

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and Jetwig Enterprises (Proprietary) Limited. Subsidiaries are entities which are controlled by the Group. Generally, there is a presumption majority of voting rights result in control. Also refer to the paragraph below for definition of control. The Group measures investments in these entities in its separate financial statements at cost less impairment.

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.

Subsidiaries

Jetwig Enterprises (Proprietary) Limited is 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 can affect those returns through its power over the entity. The financial statements of Jetwig Enterprises (Proprietary) Limited are included in the consolidated financial statements.

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.

3. New standards (IFRS) and interpretations

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

The following standards, amendments to standards and interpretations became effective for the year ended 31 December 2023:

IFRS 17 – Insurance Contracts

International Accounting Standards Board (IASB) issued IFRS 17 in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. The new IFRS 17 standard establishes the principles for the recognition, measurement, presentation, and disclosure of Insurance contracts within the scope of the Standard.

The objective of IFRS 17 is to ensure an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance, and cash flows.

This standard had no impact on the Group and Company's financial statements as there are no insurance contracts held directly with customers.

Amendments to IAS 8 – Definition of Accounting Estimates

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors.

The amendments had no impact on the Group's and Company's financial statements as there were no changes in accounting estimates measurement techniques.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense).

This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments did not have a significant impact on the Group and Company's financial statements.

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

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

Accounting policy notes have been updated to only include material accounting policies.

International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

The amendments to IAS 12, concerning the International Tax Reform – Pillar Two Model Rules, introduce key changes. They establish an exception to IAS 12, allowing entities not to recognise or disclose deferred tax assets and liabilities associated with Organisation for Economic Co-operation and Development (OECD) Pillar Two income taxes. However, entities must disclose the application of this exception. Additionally, there is a new requirement for entities to disclose their current tax expense/(income) specifically related to Pillar Two income taxes. Furthermore, when Pillar Two legislation is enacted but not yet effective, entities must disclose relevant information to help stakeholders understand their exposure to these taxes.

The amendments did not have a significant impact on the Group and Company's financial statements.

3. New standards (IFRS) and interpretations (continued)

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 2023:

Classification of liabilities as current or non-current and liabilities with covenants (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 effective 1 January 2024. The amendment is not expected to have any impact on the Group and Company's financial statements.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued Lease Liability in a Sale and Leaseback. The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. However, the requirements do not prevent the seller-lessee from recognising any gain or loss arising from the partial or full termination of a lease.

The amendment is effective 1 January 2024. The amendment is not expected to have any impact on the Group and its Company's financial statements.

Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments. The amendments clarify the characteristics of supplier finance arrangements. In these arrangements, one or more finance providers pay amounts an entity owes to its suppliers. The entity agrees to settle those amounts with the finance providers according to the terms and conditions of the arrangements, either at the same date or later than that on which the finance providers pay the entity's suppliers.

The amendments require an entity to provide information about the impact of supplier finance arrangements on liabilities and cash flows, including terms and conditions of those arrangements, quantitative information on liabilities related to those arrangements as at the beginning and end of the reporting period and the type and effect of non-cash changes in the carrying amounts of those arrangements. The information on those arrangements is required to be aggregated unless the individual arrangements have dissimilar or unique terms and conditions.

The amendments are effective 1 January 2024 and are not expected to have material impact on the Group and Company's financial statements.

Amendments to IAS 21 in Lack of Exchangeability

The amendments in Lack of Exchangeability (Amendments to IAS 21) amend IAS 21 to:

(a) Specify when a currency is exchangeable into another currency and when it is not

A currency is exchangeable when an entity can exchange that currency for the other currency through markets or exchange mechanisms that create enforceable rights and obligations without undue delay at the measurement date and for a specified purpose; a currency is not exchangeable into the other currency if an entity can only obtain an insignificant amount of the other currency.

(b) Specify how an entity determines the exchange rate to apply when a currency is not exchangeable

When a currency is not exchangeable at the measurement date, an entity estimates the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing. Require the disclosure of additional information when a currency is not exchangeable when a currency is not exchangeable an entity discloses information that would enable users of its financial statements to evaluate how a currency's lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows.

The amendments are effective 1 January 2025 and are not expected to have material impact on the Group and Company's financial statements.

3. New standards (IFRS) and interpretations (continued)

3.2 New standards and interpretations not yet effective (continued)

Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture

The IASB has made limited scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

The effective date of these amendments is not determined. These amendments are not expected to have material impact on the Group and Company's financial statements.

IFRS 18 Presentation and disclosure in Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements as the primary source of requirements in IFRS Accounting Standards for financial statement presentation. It introduces three key new requirements:

(a) Defined Subtotals in the Statement of Profit or Loss

IFRS 18 introduces two new defined subtotals to be presented in the statement of profit or loss: operating profit or loss and profit or loss before financing and income tax. Income and expenses will be classified into three new defined categories namely: operating, investing, and financing, providing a consistent structure to the statement of profit or loss.

(b) Disclosure of Management-Defined Performance Measures (MPMs)

Additional disclosures on specified alternative performance measures, termed MPMs, are required. MPMs are subtotals of income and expenses used in public communications to convey management's view of financial performance. A single disclosure note is required to explain why the MPM is reported, how it is calculated, any changes, and a reconciliation to the most directly comparable IFRS-defined subtotal. This information will be subject to audit as part of the financial statements.

(c) Enhanced Requirements on Grouping of Information

IFRS 18 includes enhanced requirements on the grouping of information in the financial statements, including aggregation and disaggregation. This involves presenting and disclosing operating expenses and determining if information should be included in the primary financial statements or disclosed in the notes. Additionally, it provides guidance on determining meaningful labels and information about items in the statement of profit or loss labelled as 'other'.

IFRS 18 is effective 1 January 2027, with earlier application permitted. The standard is expected to have an impact in the presentation and disclosures in the Group and Company's financial statements.

4. Significant accounting policies

(a) The accounting policies applied by the Group are consistent with those used in the previous year except where otherwise stated.

(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 items that are measured at historical cost in a foreign currency are translated to Botswana Pula using the spot exchange rates as at the date of recognition.

(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 fair value of the asset and the consideration received is recognised in profit or loss.

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

1) Amortised cost.

2) 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) 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.

ii) Hold to sell – (FVTPL)

- This includes all derivative financial instruments.
- A financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition for financial assets and liabilities not at FVTPL. Transaction costs for financial assets and liabilities measured at FVTPL are expensed in profit and loss.

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Impairment of financial assets

First Capital Bank classifies and measures financial instruments at amortised cost, except where otherwise stated. The financial assets at amortised cost consist of loans and advances, cash and cash equivalents and debt securities. The Group 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 Group 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 PF, LGD and EAD. Individual assessment is performed on all customer loans and advances after having defined a minimum exposure threshold.

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 Group's early warning risk monitoring process).
- Debt securities, loans to banks and bank balances which are past due.

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Expected Credit Losses (ECLs) measurement (continued)

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 Group's early warning risk monitoring process) justifying credit impairment.
- Debt securities, loans to banks, bank balances in default.

Note 5 (a) 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. The income is however not recognised on statement of profit or loss but rather suspended within the balance sheet and referred to as interest in suspense.

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

Expected Credit Loss (ECL) Modelling Approach

Customer portfolios are segmented into Payroll Lending/ Retail, and Corporate, and further into overdrafts, loans and non-funded/off-balance sheet products. Payroll Lending and Retail loans are run in a portfolio-based model, while Corporate exposures are run into a facility based model.

Portfolio assessment is performed by way of a collective assessment semi-empirical IFRS 9 models ("the ECL Models) developed in consultation with external consultants supported by available historic information to support the modelling of PD, LDG and EAD.

Individual assessment is performed on all corporate loans, as well as customer loans and advances after having defined a minimum exposure threshold. The Group 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.

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.

EAD is determined by considering as below:

- For customer loans and advances: Outstanding exposures.
- For overdrafts: Outstanding exposures plus undrawn limits.

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Expected Credit Losses (ECLs) measurement (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 on various financial assets/low risk financial instruments, except for customer loans and advances, have been determined in terms of:

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

EAD is determined as outstanding exposures for low-risk financial instruments.

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 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 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 the asset / creation of a new account), then the Bank considers whether there is a modification gain or loss. The Bank considers the new restructured cash flow and discounts this back using the original effective interest rate and if that gives a higher carrying value than the Bank currently holds, the Bank will reflect this as a gain or if it gives a lower carrying value then as a loss.

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

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Effective interest method

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

De-recognition of financial instruments

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

The 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.

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.

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

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. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, equity and equity index prices and expected price volatilities and correlations.

Valuation models for fair values of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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

Inputs used for valuation of derivatives comprise foreign exchange rates, forward rates and appropriate discount factor from Bloomberg Terminal and Refinitiv or Thomson Reuters.

- Level 3: Inputs that are unobservable. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of the financial period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
2023				
Derivative financial assets	**–**	**30 370 142**	**–**	**30 370 142**
Derivative financial liabilities	**–**	**12 047 176**	**–**	**12 047 176**
2022				
Derivative financial assets	–	31 771 613	–	31 771 613
Derivative financial liabilities	–	17 874 053	–	17 874 053

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

In the opinion of directors, the fair values of the Group and Company's financial assets and liabilities measured at amortised cost approximate the respective carrying amount due to the generally short period of most of the contractual repricing dates.

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

		Group		
Amounts in Pula	Note	At amortised cost	Fair value	Total carrying amount
2023				
Financial assets				
Cash and cash equivalents	6	1 666 621 978	–	1 666 621 978
Derivative financial assets	8	–	30 370 142	30 370 142
Investment securities	7	365 558 494	–	365 558 494
Other assets	10	15 350 758	–	15 350 758
Loans and advances to customers	9	4 232 420 496	–	4 232 420 496
		6 279 951 726	30 370 142	6 310 321 868
Financial liabilities				
Deposits from customers	13	5 276 513 605	–	5 276 513 605
Balances due to other banks	14	175 601 273	–	175 601 273
Derivative financial liabilities	8	–	12 047 176	12 047 176
Lease liabilities	15	8 861 153	–	8 861 153
Other liabilities	16	51 426 147	–	51 426 147
Subordinated debt	18	158 462 936	–	158 462 936
Preference shares	19	26 132 000	–	26 132 000
		5 696 997 114	12 047 176	5 709 044 290

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

		Group		
Amounts in Pula	Note	At amortised cost	Fair value	Total carrying amount
2022 Restated*				
Financial assets				
Cash and cash equivalents	6	1 489 385 521	–	1 489 385 521
Derivative financial assets*	8	–	31 771 613	31 771 613
Investment securities	7	147 560 498	–	147 560 498
Other assets*	10	13 934 559	–	13 934 559
Loans and advances to customers	9	3 658 943 806	–	3 658 943 806
		5 309 824 384	31 771 613	5 341 595 997
Financial liabilities				
Deposits from customers	13	4 486 475 859	–	4 486 475 859
Balances due to other banks*	14	127 551 020	–	127 551 020
Derivative financial liabilities*	8	–	17 874 053	17 874 053
Lease liabilities	15	7 811 713	–	7 811 713
Other liabilities*	16	39 995 980	–	39 995 980
Subordinated debt	18	158 757 521	–	158 757 521
Preference shares	19	26 132 000	–	26 132 000
		4 846 724 093	17 874 053	4 864 598 146

* *Details related to prior year restatements are disclosed in note 43.*

4. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

Fair value measurement (continued)

Amounts in Pula	Note	Company At amortised cost	Fair value	Total carrying amount
2023				
Financial assets				
Cash and cash equivalents	6	1 666 621 978	–	1 666 621 978
Derivative financial assets	8	–	30 370 142	30 370 142
Investment securities	7	365 558 494	–	365 558 494
Other assets	10	14 556 476	–	14 556 476
Loans and advances to customers	9	4 232 420 496	–	4 232 420 496
		6 279 157 444	30 370 142	6 309 527 586
Financial liabilities				
Deposits from customers	13	5 288 468 390	–	5 288 468 390
Balances due to other banks	14	175 601 273	–	175 601 273
Derivative financial liabilities	8	–	12 047 176	12 047 176
Lease liabilities	15	8 861 153	–	8 861 153
Other liabilities	16	51 245 654	–	51 245 654
Subordinated debt	18	158 462 936	–	158 462 936
Preference shares	19	26 132 000	–	26 132 000
		5 708 771 406	12 047 176	5 720 818 582

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 Restated*				
Financial assets				
Cash and cash equivalents	6	1 489 385 521	–	1 489 385 521
Derivative financial assets*	8	–	31 771 613	31 771 613
Investment securities	7	147 560 498	–	147 560 498
Other assets*	10	13 586 528	–	13 586 528
Loans and advances to customers	9	3 658 943 806	–	3 658 943 806
		5 309 476 353	31 771 613	5 341 247 966
Financial liabilities				
Deposits from customers	13	4 495 307 483	–	4 495 307 483
Balances due to other banks*	14	127 551 020	–	127 551 020
Derivative financial liabilities*	8	–	17 874 053	17 874 053
Lease liabilities	15	7 811 713	–	7 811 713
Other liabilities*	16	39 941 052	–	39 941 052
Subordinated debt	18	158 757 521	–	158 757 521
Preference shares	19	26 132 000	–	26 132 000
		4 855 500 789	17 874 053	4 873 374 842

* *Details related to prior year restatements are disclosed in note 43.*

4. Significant accounting policies (continued)

(d) Cash and cash equivalents

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

(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.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are initially recognised at cost and are subsequently measured at historical 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.

4. Significant accounting policies (continued)

(h) Property and equipment (continued)

(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

(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.

(vii) 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.

4. Significant accounting policies (continued)

(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.

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 from customers and other banks and subordinated liabilities are the Bank's principal sources of funding. When the Bank sells a financial asset and simultaneously enters 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.

(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 as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(l) 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.

4. Significant accounting policies (continued)

(m) 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.

(n) 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 because of past service provided by employees and the obligation can be estimated reliably.

(o) 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.

(p) Leases

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group 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 Group 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.

4. Significant accounting policies (continued)

(p) Leases (continued)

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

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

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

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 Group 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.

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 Group 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 Group 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 Group has used this practical expedient.

4. Significant accounting policies (continued)

(p) Leases (continued)

The Group as lessor

Leases for which the Group 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 Group 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 Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

(q) 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 Group 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 Group are recognised as the services are provided, for example on completion of an underlying transaction. Fees and commission are disaggregated into fees received at a point in time and fees received over time. Fees received at a point in time refer to one-time fees which comprise insurance commission, account activity fees, card-based transaction fees, cash deposit and withdrawal fees. Commission earned on bank guarantees and letters of credit relates to fees received over time as collection is made periodically over the life of the instruments.

(r) Net gain on foreign exchange transactions

The income comprises gains and losses relating to trading assets and liabilities and include realised and foreign exchange differences.

4. Significant accounting policies (continued)

(s) Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivative financial instruments consist of foreign currency forward and swap contracts which have intended settlement dates of less than six months. Foreign currency forward contracts are valued at fair value with reference to data obtained from credible sources such as Bloomberg.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

(t) 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.

(u) 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.

(v) 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.

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 among others:

- Payroll Lending Credit Risk Management Policy
- Corporate Credit Risk Management Policy
- Liquidity Risk Policy
- Operational Risk Policy
- Interest Rate Risk Policy
- Capital Risk Policy
- Market Risk Policy
- Foreign Exchange Risk Policy
- Financial Crime Risk Policy
- Regulatory Risk Policy.

(a) Credit risk

Credit risk is the risk of financial loss should the Group's customers, 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 with counterparties.

Other sources of credit risk arise from treasury bills, government bonds, settlement balances with counterparties and 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:* This covers 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 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 more than 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 Group'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.

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk grading

Corporate exposures

First Capital Bank uses internal credit risk gradings that reflect its assessment of the PD of individual counter parties.

Application

First Capital Bank uses internal rating models tailored to the various categories of counter party. Borrower and loan 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 model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable 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 assessment process on an ongoing basis. In addition, the Group 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 to identify those customers who are believed to be facing a SICR.

Retail exposures

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural internal credit rating. Any other known information about the borrower which impacts their creditworthiness such as unemployment and previous delinquency history can also be incorporated into the behavioural internal credit rating. These ratings are reflected on the following delinquency buckets; Performing loans (CD 0); 1 day to 30 days past due (CD 1); 31 days to 60 days past due (CD 2); 61 days to 89 days past due (CD 3) and 90 days+ past due (default, CD 4).

Treasury exposures

For debt securities in the treasury portfolio and interbank exposures, performance of the counter party is monitored for any indication of default. PDs for such exposures are determined based on benchmarked national ratings mapped to external credit rating agencies grade. For other bank balances where there are external credit ratings PDs are derived using those external credit ratings.

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk grading (continued)

Exposures not provisioned through the Corporate, Retail and Treasury models

The Bank has a portfolio of exposures whose ECLs are not calculated through the various approaches mentioned above for Corporate, Retail and Treasury models (unmodelled portfolio). This book forms approximately 3.13%, and 3.18% of the total loans and advances for 2023 and 2022 respectively, and comprises staff loans, retail loans and overdrafts which fall outside of the payroll lending segment. The expected credit losses for this portfolio are calculated using the coverage ratios coming from the Retail Model as an approximation of the expected credit losses, and the staging is as follows:

Stage 3

The criteria for Stage 3 are as follows:

- payment delays by 90 days or more.

Stage 2

The criteria for Stage 2 are as follows:

- payment delays 30 days up to 89 days.

Stage 1

The criteria for Stage 1 are as follows:

- performing loans, and payment delays up to 29 days.

Staging definition

The ECL tools makes use of internal grades, external grades, days past due and qualitative staging flags to determine the facility's stage. The staging criteria is described below. The assessment starts looking for Stage 3 criteria and stops if met and proceeds to Stage 2 and then Stage 1 if criteria not met, stopping at Stage 2 if criteria for Stage 2 is met.

Stage 3

The criteria for Stage 3 are as follows:

- Payment delays by 90 days or more.
- Internal Rating is D.

The above criteria are assessed as part of the ECL calculation as days past due and internal rating grade is provided in the model facility data. These are configured in the Model. If any other criteria are identified, management may also use their judgement to classify into Stage 3, aligning to ongoing credit risk monitoring.

Stage 2

The criteria for Stage 2 are as follows:

- Payment delays 30 days and up to 89 days.

5. Financial risk management (continued)

(a) Credit risk (continued)

Staging definition (continued)

Stage 1

The criteria for Stage 2 are as follows:

- performing loans, and payment delays up to 29 days.
- Risk grade drops by 8 notches if was investment grade at inception or drops by 4 notches if non-investment grade.

As with Stage 3, the above criteria are assessed as part of the ECL calculation as days past due and internal rating grade is provided in the model facility data. These are configured in the Model. If any other criteria are identified, management may also use their judgement to classify into stage 2, aligning to ongoing credit risk monitoring.

ECL measurement is already outlined under note 5 for financial assets and liabilities.

Scenario analysis and key macroeconomic assumptions

IFRS 9 requires that ECLs are calculated in a way that considers a range of possible scenarios which are considered in a consistent manner.

Corporate

Forward-looking information incorporated in the ECL model

The Group 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.

The Group 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.

Determination of the Cyclicality Index (CI)

The scenario framework uses a Cyclicality Index (CI), which can be considered as a measure of where the economy sits in the credit cycle at any time. The model uses publicly available data on default rates as a basis for the CI. All scenarios used for the ECL calculation are linked with a CI forecast which directly impacts the ECL calculation through the adjustment of PDs.

The CI is used as a proxy for the credit state in the economy and is based off credible external data which reasonably represents the level of defaults in an economy. It provides an indication of where we currently are in the credit cycle and is a proxy for the level of systematic credit risk.

Using historical economic data and historical CI values, a relationship is established through regression, which then enables the forecast of CI. The CI is made a function of macroeconomic variables, and CIs are generated for upside and downside scenarios, compared to the base case.

5. Financial risk management (continued)

(a) Credit risk (continued)

Scenario analysis

The scenarios are found using a distribution of the CI based on historical data, from which different levels of CI are selected based on certain confidence intervals or severities. Forecasted CI value and historical CI distribution is used to generate positive and negative CIs given selected severities conditional on the base case scenario. Each scenario is then assigned a probability of occurring relative to each other.

The IFRS 9 model considers the following scenarios;

- Best Case – CI level based on least severe level relative to the base case.
- Good Case – CI level based on less severe level relative to the base case.
- Base Case – CI level based on the base case macro inputs.
- Bad Case – CI level based on more severe level relative to the base case.
- Worse Case – CI level based on most severe level relative to the base case.

This section describes how the CI distribution is used to generate probabilities for the base case, positive and negative scenarios.

The distribution is split into two on either side of the base case (upside and downside).

We wish to determine CI values for the scenarios for our chosen upside and downside scenarios, where the upside scenarios will have a CI lower than the base case and vice versa for the downside scenarios (conditional scenarios).

Macroeconomic assumptions

Botswana uses country specific default rates in the regression analysis. The following are the two macroeconomic variables employed in the model:

New Drivers	Rationale
Inflation	This variable affects the spending power in the economy. As goods become expensive then demand goes down. The ripple effect is then on the business performance of our clients which then goes down. We are currently in a high inflation environment which we expect it to persist in the medium term due the current global economic environment.
General Government Net Debt	The level of government debt for Botswana is expected to be low, and as such, government spending is expected to continue especially into the election year. The effect would be improved business performance for customers reliant on government projects, and general improved economic performance of a country.

5. Financial risk management (continued)

(a) Credit risk (continued)

Macroeconomic assumptions (continued)

The table below summarises the principal macroeconomic indicators included in the economic scenarios used as at 31 December 2023 for the years 2022 to 2027, for Botswana that has a material impact in ECLs.

			Forecast (%)					
Key drivers	ECL scenario	Assigned weightings (%)	2022	2023	2024	2025	2026	2027
Group and Company 2023*								
Inflation average consumer prices								
International Monetary Fund (IMF): Inflation, average consumer prices, % change	Base case	58.33	12.50	6.50	5.99	5.83	5.85	(0.20)
	Good case	0.00	12.50	6.50	6.01	5.85	5.88	2.46
	Better case	0.00	12.50	6.50	6.04	5.88	5.91	3.03
	Bad case	29.17	12.50	6.50	1.36	1.36	1.36	(1.36)
	Worse case	12.50	12.50	6.50	0.33	0.33	0.33	(2.25)
General government net debt								
IMF: General government net debt, Billions, National Currency	Base case	58.33	34.00	40.60	40.47	39.45	39.62	1.05
	Good case	0.00	34.00	40.60	40.65	39.62	39.79	18.02
	Better case	0.00	34.00	40.60	40.82	39.79	39.96	21.62
	Bad case	29.17	34.00	40.60	10.99	10.99	10.99	(6.32)
	Worse case	12.50	34.00	40.60	4.48	4.48	4.48	(11.98)

* *Management was unable to disclose comparative macroeconomic assumptions and related sensitivity analyses for 2022 as the information was unavailable. For the corporate model, the point in time data required to reperform sensitivities as at 31 December 2022 had not been retained in the corporate model, and was therefore no longer available at the current reporting date. For retail, the information available for the current year was not in the same form as what was retained for the prior year and would result with incomparable information being presented in the financial statements.*

5. Financial risk management (continued)

(a) Credit risk (continued)

Macroeconomic assumptions (continued)

The table below shows the sensitivity of the ECL to changes in the weights assigned in the model to each ECL scenario.

Scenario Weights						
Worse	**Bad**	**Base**	**Good**	**Better**	**ECL**	**ECL impact**
Group and Company 2023*						
20.00%	20.00%	20.00%	20.00%	20.00%	22 631 108	(18%)
40.00%	20.00%	20.00%	10.00%	10.00%	26 442 492	(5%)
60.00%	30.00%	10.00%	0.00%	0.00%	30 747 955	11%
10.00%	10.00%	20.00%	20.00%	40.00%	16 409 787	(41%)
0.00%	0.00%	25.00%	25.00%	50.00%	12 735 581	(54%)

* *Management was unable to disclose comparative macroeconomic assumptions and related sensitivity analyses for 2022 as the information was unavailable. For the corporate model, the point in time data required to reperform sensitivities as at 31 December 2022 had not been retained in the corporate model, and was therefore no longer available at the current reporting date. For retail, the information available for the current year was not in the same form as what was retained for the prior year and would result with incomparable information being presented in the financial statements.*

Retail

Three scenarios have been used for the retail framework:

- Base Case
- Up Case
- Down Case.

Once a relationship is established between a loan book's behaviour and one or more macroeconomic factors, we are able to incorporate forecasted macroeconomic factors into the model. This is by comparing historic and future macroeconomic data together with the loan book behaviour to identify quantitative relationships. If a correlation structure exists between historic macroeconomic data and the loan book behaviour, then this provides a good basis for incorporating forward-looking information by means of forecasted macroeconomic data. The base case forecast is derived for the relevant macroeconomic factors and is used as is. The Up and Down scenarios are created from the base scenario, scenarios by building a statistical tolerance interval around the base scenario.

5. Financial risk management (continued)

(a) Credit risk (continued)

Macroeconomic assumptions (continued)

Three macroeconomic variables were applied, namely foreign exchange rate, unemployment rate and lending rate. The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2023 for the years 2022 to 2027, for Botswana that has a material impact in ECLs.

		Forecast (%)						
Key drivers	ECL scenario	Assigned weightings	2023	2024	2025	2026	2027	Long term rate
Group and Company 2023*								
Lending Rate (%)	Down	20	6.76	6.55	8.15	9.54	10.87	9.28
	Base	60	6.76	7.91	9.08	10.29	11.52	9.69
	Up	20	6.76	9.27	10.01	11.04	12.16	10.09
Unemployment Rate (%)	Down	20	32.94	32.20	34.06	37.13	38.04	39.52
	Base	60	28.86	31.11	33.31	36.53	37.52	39.20
	Up	20	24.78	30.02	32.57	35.93	37.00	38.88
Foreign exchange USD (Local currency (LCY)/USD)	Down	20	13.49	14.14	13.40	15.20	16.96	13.36
	Base	60	13.49	14.94	13.94	15.64	17.34	13.60
	Up	20	13.49	15.74	14.48	16.08	17.72	13.84

The table below shows the sensitivity of the ECL to changes in the weights assigned in the model to each ECL scenario.

Weights				
Base Case	Up Case	Down Case	ECL Amount	ECL impact (%)
Group and Company 2023*				
70%	15%	15%	67 969 188	(4.47%)
80%	10%	10%	64 789 347	(8.94%)
90%	5%	5%	61 609 507	(13.41%)
100%	0%	0%	58 429 666	(17.88%)

* *Refer to the footnote on page 78 explaining why comparative information is not disclosed.*

5. Financial risk management (continued)

(a) Credit risk (continued)

Probability of default (PD)

The PD is the likelihood of a borrower defaulting on its financial obligation (refer default section below for the definition of default), either over the next 12 months, or over the remaining lifetime (Lifetime PD) of the obligation. PDs are modelled using historic data into 12-month PD and lifetime PDs.

Where data is not available, proxies which resemble the risk of default characteristics of the exposure are used. The PDs are determined individually or below threshold at portfolio level (below internal thresholds for customer exposures) and segmented into various categories using tenure, currency, product, or low risk classification.

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

PDs are mapped into regulatory grades as follows:

(i) Customer loans and advances

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

(ii) Low risk financial instruments

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

Exposure at default (EAD): EAD is the amount the Group 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 by considering as below:

- For customer loans and advances: Outstanding exposures.
- For overdrafts: Outstanding exposures plus undrawn limits.

Loss given default (LGD): LGD represents the Group'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, except for 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 IRB and observed in the Committee's study on Banks.
- Internal benchmark based on historical recoverability.

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 Group 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 Group'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 Group 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 monthly 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 Group 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 Group 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)

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 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, Treasury and the business.

The Committee responsible for decisions and key judgments pertaining to impairments and model overrides which ensures that all relevant determinations are presented to the Board Credit as deemed necessary. As of 31 December 2023, management has not deemed it necessary to consider additional provisions, as the actions taken by management were deemed sufficient to mitigate any potential impact of future macroeconomic events.

Exposure to credit risk

The Group's exposure to credit risk has been represented alongside the Bank's two main segments when it comes to loans and advances, namely:

- ***Cons***umer Lending comprise of deduction at source payroll-based lending. These are also unsecured loan offerings.
- Corpor***ate and Other Banking*** includes the following:
  - Corporate – lending to Corporate, Commercial segments, and this includes term loans, mortgage loans, and overdrafts.
  - Other Banking – includes lending to small to medium-sized enterprises (SME) and individuals which also covers mortgages, secured and unsecured lending.

Off-balance sheet exposures include letters of credit, guarantees and undrawn loan commitments.

5. Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Amounts in Pula	Group and Company: Consumer lending loans	Corporate and other loans	Off-balance sheet exposures	Cash and cash equivalents	Investment securities	Total
2023						
Personal and term loans	**2 185 275 177**	**1 585 642 643**	**–**	**–**	**–**	**3 770 917 820**
Mortgage loans	**–**	**120 240 687**	**–**	**–**	**–**	**120 240 687**
Overdrafts	**–**	**443 834 238**	**–**	**–**	**–**	**443 834 238**
Other	**–**	**–**	**593 614 301**	**1 600 271 454**	**368 433 590**	**2 562 319 345**
Gross exposures	**2 185 275 177**	**2 149 717 568**	**593 614 301**	**1 600 271 454**	**368 433 590**	**6 897 312 090**
Reconciliation of ECL by exposure						
Balance at the beginning of the year	**(52 296 240)**	**(42 062 298)**	**(4 366 056)**	**(18 642)**	**(33 673)**	**(98 776 909)**
Charge to profit or loss	**(35 679 434)**	**13 819 738**	**(3 214 435)**	**(53 916)**	**(2 841 423)**	**(27 969 470)**
Net movement on interest in suspense	**(2 701 625)**	**1 623 940**	**–**	**–**	**–**	**(1 077 685)**
Write-offs	**14 066 374**	**657 296**	**–**	**–**	**–**	**14 723 670**
Total impairment	**(76 610 925)**	**(25 961 324)**	**(7 580 491)**	**(72 558)**	**(2 875 096)**	**(113 100 394)**
Net exposures	**2 108 664 252**	**2 123 756 244**	**586 033 810**	**1 600 198 896**	**365 558 494**	**6 784 211 696**

Amounts in Pula	Group and Company: Consumer lending loans	Corporate and other loans	Off-balance sheet exposures	Cash and cash equivalents	Investment securities	Total
2022						
Personal and term loans	1 579 016 596	1 531 975 319	–	–	–	3 110 991 915
Mortgage loans	–	107 332 172	–	–	–	107 332 172
Overdrafts	–	534 978 257	–	–	–	534 978 257
Other	–	–	419 828 933	1 429 683 936	147 594 171	1 997 107 040
Gross loans and advances to customers	1 579 016 596	2 174 285 748	419 828 933	1 429 683 936	147 594 171	5 750 409 384
Reconciliation of ECL by exposure						
Balance at the beginning of the year	(43 416 292)	(38 237 466)	(3 821 534)	(242 588)	(20 700)	(85 738 580)
Charge to profit or loss*	(16 372 478)	(10 612 279)	(544 522)	223 946	(12 973)	(27 318 306)
Net movement on interest in suspense	(2 717 012)	(871 905)	–	–	–	(3 588 917)
Write-offs	10 209 542	7 659 352	–	–	–	17 868 894
Total impairment	(52 296 240)	(42 062 298)	(4 366 056)	(18 642)	(33 673)	(98 776 909)
Net loans and advances	1 526 720 356	2 132 223 450	415 462 877	1 429 665 294	147 560 498	5 651 632 475

In the prior year, the credit risk management disclosure only included loans balances. In the current year, the disclosure has been updated to include all modelled credit exposures with comparatives updated for comparability.

* *Refer to note 9 for details regarding the change in the presentation of the reconciliation from the prior year.*

5. Financial risk management (continued)

(a) Credit risk (continued)

The Bank's loan portfolio experienced a notable expansion of approximately P600 million, primarily attributed to increased activity within the Payroll Lending segment. This expansion has correspondingly led to a rise in provisions by approximately P10 million, driven by new acquisitions within the Payroll Lending segment.

Within the Payroll lending segment, credit quality has demonstrated stability, evidenced by an improvement in Stage 2 metrics from 5.16% to 3.16% between 2022 and 2023, respectively. Concurrently, Stage 3 metrics have remained consistent at 1.32% and 1.35% for the same period, owing to the stabilization of the LAM system. Notably, there has been a Stage 3 increase of approximately P8 million, resulting in an ECL increase of about BWP7 million, factoring in the coverage ratio of 78.6% for Stage 3 customers. This increase is primarily attributed to heightened resignations and retirements in the Government and Parastatal space.

Corporate credit quality has witnessed a significant improvement, with Stage 2 experiencing a decrease from 12.96% to 7.33% between 2022 and 2023, respectively. This improvement has led to a decrease of BWP129 million in Stage 2 balances, driving the observed BWP8.8 million release in the corporate segment. This positive development is a result of improved customer performance aligning with the favourable economic conditions of 2023, with the residual impact of COVID largely dissipating. Consequently, approximately P125 million, which was previously held in Stage 2 as part of the curing period, has successfully reverted to Stage 1. A similar trend is observed in Stage 3, albeit with longer curing periods, thus stabilising Stage 3 facilities.

Write-offs totalling approximately P14 million have occurred, reflecting standard operational losses attributed to events such as deaths, dismissals, and resignations within the Payroll Lending segment. The write-off level remains consistent at 0.66% of the total Payroll Lending Book.

Economic sector risk concentrations within the customer loan portfolio:

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

	Group and Company			
Amounts in Pula	**2023**	**%**	2022	%
Agriculture	**92 231 028**	**2.1%**	50 002 788	1.3%
Mining	**71 836 310**	**1.6%**	23 069 706	0.6%
Financial Services	**162 558 076**	**3.7%**	211 999 420	5.7%
Construction	**249 662 298**	**5.8%**	237 660 717	6.4%
Energy/Electricity/Gas/Water	**17 271 561**	**0.4%**	16 879 669	0.5%
Manufacturing	**185 444 155**	**4.3%**	181 059 337	4.8%
Individual/Households	**2 469 236 000**	**57.0%**	1 964 060 536	52.3%
Real Estate	**415 151 118**	**9.6%**	462 668 445	12.3%
Tourism and Leisure	**280 681 482**	**6.5%**	337 978 143	9.0%
Transport and Communication	**121 507 647**	**2.8%**	128 598 985	3.4%
Others	**269 413 070**	**6.2%**	139 324 598	3.7%
Total credit risk exposure	**4 334 992 745**	**100%**	3 753 302 344	100%

Top 20 large exposures comprise 24.6% (2022: 25.2%) of the total credit risk exposure.

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

Amounts in Pula	Loans and advances to customers	Off-balance sheet exposures	Investment securities	Cash and cash equivalents	Other assets	Total
Group 2023						
Reconciliation of ECL by exposure						
Stage 1	4 026 394 510	445 557 865	368 433 590	1 600 271 454	15 350 758	6 456 008 177
Stage 2	225 003 828	147 667 398	–	–		372 671 226
Stage 3	83 594 407	389 038	–	–		83 983 445
Gross exposure	4 334 992 745	593 614 301	368 433 590	1 600 271 454	15 350 758	6 912 662 848
Contribution by stage						
Stage 1 – 12 months ECL	(44 083 195)	(3 186 749)	(2 875 096)	(72 558)	–	(50 217 598)
Stage 2 – Lifetime ECL not credit impaired	(15 160 935)	(4 188 215)	–	–	–	(19 349 150)
Stage 3 – Lifetime ECL credit impaired	(43 328 119)	(205 527)	–	–	–	(43 533 646)
Total impairment	(102 572 249)	(7 580 491)	(2 875 096)	(72 558)	–	(113 100 394)
Net amount	4 232 420 496	586 033 810	365 558 494	1 600 198 896	15 350 758	6 799 562 454

No separate Company-specific table has been included as the difference with Group is only on other assets which do not carry ECLs, and the variance to the Group is not material.

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets before credit enhancements (continued)

Amounts in Pula	Loans and advances to customers	Off-balance sheet exposures	Investment securities	Cash and cash equivalents*	Other assets**	Total
Group 2022						
Reconciliation of ECL by exposure						
Stage 1	3 298 850 273	415 458 933	147 594 171	1 429 683 936	13 934 559	5 305 521 872
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	419 828 933	147 594 171	1 429 683 936	13 934 559	5 764 343 943
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	415 462 877	147 560 498	1 429 665 294	13 934 559	5 665 567 034

Guarantees, letters of credit and loan commitments are now presented together as off-balance sheet exposures with the prior year comparatives updated to reflect the same.

* *The prior year disclosure included cash on hand balance of P59 720 227 which was erroneously disclosed as a credit risk exposure. This was corrected in the current year with the comparative disclosure amended to reflect the accurate credit risk exposure related to cash and cash equivalents.*

** *In prior year, forward contracts revaluation assets amounting to P31 535 450 were erroneously classified and disclosed under other assets. The error has been corrected and these have been recognised as Derivative financial instruments. Refer to note 43 for more details.*

5. Financial risk management (continued)

(a) Credit risk (continued)

Analysis of Stage 2 loans and advances reflecting the criteria for inclusion in Stage 2

The table below presents an analysis of stage 2 balances as at the reporting date reflecting the reasons for inclusion in Stage 2 for loans and advances. The indicators of SICR are explained in Significant increase in credit section above.

(1) Other qualitative reasons on the table below include:

- 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.

	2023			2022		
Amounts in Pula	Gross carrying amount	ECL	Coverage Ratio	Gross carrying amount	ECL	Coverage Ratio
Less than 30 DPD:	168 634 241	(6 311 618)	3.74%	290 649 581	(5 422 861)	1.87%
Rating movement	31 065 895	(813 362)	2.62%	–	–	–
No longer impaired but in curing period	89 944 327	(523 107)	0.58%	215 593 389	(4 737 668)	2.20%
Other qualitative reasons	47 624 019	(4 975 149)	10.45%	75 056 192	(685 193)	0.91%
More than 30 DPD	56 369 587	(8 849 317)	15.70%	82 640 748	(21 826 072)	26.41%
Total	225 003 828	(15 160 935)	6.74%	373 290 329	(27 248 933)	7.30%

Analysis of Stage 3 loans and advances reflecting the criteria for inclusion in Stage 3

The table below presents an analysis of Stage 3 balances. The table shows loans and advances less than 90 DPD and loans and advances greater than 90 DPD by Stage. This presents the loans and advances classified as Stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures also show loans in cure period that precedes transfer to Stage 2.

	2023			2022		
Amounts in Pula	Gross carrying amount	ECL	Coverage Ratio	Gross carrying amount	ECL	Coverage Ratio
Less than 90 DPD:	21 408 307	(3 677 725)	17.18%	14 311 488	(939 487)	6.56%
No longer impaired but in curing period	16 299 874	(2 968 146)	18.21%	13 291 461	(664 573)	5.00%
Restructures	5 108 433	(709 579)	13.89%	1 020 027	(274 914)	26.95%
More than 90 DPD	62 186 100	(39 650 394)	63.76%	66 850 254	(33 229 508)	49.71%
Total Stage 3	83 594 407	(43 328 119)	51.83%	81 161 742	(34 168 995)	42.10%

5. Financial risk management (continued)

(a) Credit risk (continued)

Description of collateral held as security and other credit enhancements, in respect of the previous page.

The table below shows maximum exposure to credit risk by class of financial asset. It also indicates the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

Amounts in Pula	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held: Cash	Property	Other	Total collateral	Net exposure	% of exposure subject to collateral requirements	Associated ECL
Group and Company 2023								
Loans and advances to customers								
Term loans	3 770 917 820	183 171 207	1 142 945 335	110 064 909	1 436 181 451	2 334 736 369	38%	(88 384 692)
Mortgage loans	120 240 687	–	128 142 087	–	128 142 087	(7 901 400)	107%	(5 437 550)
Overdraft	443 834 238	157 536 503	360 030 646	865 000	518 432 149	(74 597 911)	117%	(8 750 007)
Total	4 334 992 745	340 707 710	1 631 118 068	110 929 909	2 082 755 687	2 252 237 058	48%	(102 572 249)
Off-balance sheet exposures	593 614 301	24 933 239	662 616	–	25 595 855	568 018 446	4%	(7 580 491)

Uncollateralised exposures for mortgage loans and overdrafts amounted to P1 204 796 and P164 736 264 respectively.

There is no collateral held against investment securities as well as cash and cash equivalents as at the current and previous reporting dates.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding balances. In general, the Bank does not occupy repossessed properties for business use. As at the current and previous reporting dates, the Bank did not hold any properties that were repossessed.

5. Financial risk management (continued)

(a) Credit risk (continued)

		Fair value of collateral and credit enhancements held						
Amounts in Pula	Maximum exposure to credit risk	Cash	Property	Other	Total collateral	Net exposure	% of exposure subject to collateral requirements	Associated ECL
Group and Company 2022								
Loans and advances to customers								
Term loans	3 110 991 915	183 860 370	1 216 584 777	100 326 669	1 500 771 816	1 610 220 099	48%	(80 369 438)
Mortgage loans	107 332 172	–	103 450 543	–	103 450 543	3 881 629	96%	(4 663 053)
Overdraft	534 978 257	149 510 607	389 294 485	–	538 805 092	(3 826 835)	101%	(9 326 047)
Total	3 753 302 344	333 370 977	1 709 329 805	100 326 669	2 143 027 451	1 610 274 893	57%	(94 358 538)
Off-balance sheet exposures	419 828 933	26 277 159	–	–	26 277 159	393 551 774	6.26%	(4 366 056)

Uncollateralised exposures for overdrafts amounted to P207 727 609. There is no collateral held against money market as well as cash and cash equivalents.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding balances. In general, the Bank does not occupy repossessed properties for business use. As at the reporting date, the Bank did not hold any properties that were repossessed.

In the current year, the presentation of collateral values associated with our credit exposures has been revised to enhance transparency in our financial statement disclosures. This change involves distinctly showing collateral values for each collateral type, providing stakeholders with a more detailed view of the composition and valuation of collateral.

Collateral values are now extracted from ECL models reports, reflecting a more accurate representation of the collateral's market value and credit risk considerations. To maintain consistency and comparability, the updated presentation of collateral values has been applied retrospectively to prior year comparatives to ensure that stakeholders can analyse trends and changes in collateral values over time.

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 Bank is required to maintain a minimum liquid asset ratio of 10% by Bank of Botswana. 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 Bank of Botswana, calculated monthly, of not less than 2.5% in 2023 (2022: 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 analysis as at the reporting date is based on undiscounted contractual cash flows and the same was applied to comparatives. This is a change from prior year's presentation which was at carrying amounts. The change is intended to provide focus on absolute cash flow amounts rather than present value considerations by showing the full cash flow effect of each line.

No separate Company-specific table has been included as the difference with Group is only between on other assets, other liabilities which are not material and deposits which relate to the subsidiary's bank accounts with First Capital Bank Limited (refer to note 39).

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Amounts in Pula	Gross nominal amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Group 2023								
Assets								
Cash and cash equivalents	1 668 344 800	1 514 437 246	153 907 554	–	–	–	–	1 668 344 800
Investment securities	440 637 666	21 483 286	2 162 808	141 589 149	7 232 599	184 957 324	83 212 500	440 637 666
Loans and advances to customers	6 012 724 882	150 656 117	305 682 003	422 914 890	767 759 756	3 211 159 934	1 154 552 182	6 012 724 882
Other assets	15 350 758	15 350 758	–	–	–	–	–	15 350 758
Total assets	8 137 058 106	1 701 927 407	461 752 365	564 504 039	774 992 355	3 396 117 258	1 237 764 682	8 137 058 106
Liabilities								
Deposits from customers	(5 389 912 334)	(2 631 878 377)	(771 551 537)	(774 659 228)	(825 447 250)	(386 375 942)	–	(5 389 912 334)
Balances due to other banks	(178 263 870)	(40 306 617)	–	(137 957 253)	–	–	–	(178 263 870)
Subordinated debt	(225 970 960)	(1 357 466)	(297 682)	(4 946 241)	(6 597 373)	(98 890 955)	(113 881 243)	(225 970 960)
Preference shares	(33 689 718)	–	–	(1 076 295)	(1 088 122)	(31 525 301)	–	(33 689 718)
Lease liabilities	(10 323 126)	(265 098)	(472 328)	(683 645)	(1 402 821)	(7 499 234)	–	(10 323 126)
Other liabilities	(51 426 147)	(51 426 147)	–	–	–	–	–	(51 426 147)
Total liabilities	(5 889 586 155)	(2 725 233 705)	(772 321 547)	(919 322 662)	(834 535 566)	(524 291 432)	(113 881 243)	(5 889 586 155)
Net liquidity gap	2 247 471 951	(1 023 306 298)	(310 569 182)	(354 818 623)	(59 543 211)	2 871 825 826	1 123 883 439	2 247 471 951
Cumulative liquidity gap		(1 023 306 298)	(1 333 875 480)	(1 688 694 103)	(1 748 237 314)	1 123 588 512	2 247 471 951	2 247 471 951

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Amounts in Pula	Gross nominal amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Group 2022 Restated								
Assets								
Cash and cash equivalents	1 489 728 771	1 463 937 954	25 790 817	–	–	–	–	1 489 728 771
Money market investments	202 818 116	–	2 150 925	2 045 548	4 266 027	106 793 733	87 561 883	202 818 116
Loans and advances to customers	4 837 081 325	336 196 028	305 817 354	270 298 231	625 413 425	2 611 314 738	688 041 549	4 837 081 325
Other asset balances	13 934 559	13 934 559	–	–	–	–	–	13 934 559
Total assets	6 543 562 771	1 814 068 541	333 759 096	272 343 779	629 679 452	2 718 108 471	775 603 432	6 543 562 771
Liabilities								
Deposits from customers	(4 573 800 746)	(2 029 879 494)	(1 129 010 955)	(576 870 891)	(638 705 005)	(199 334 401)	–	(4 573 800 746)
Balances due to other banks	(128 993 941)	–	–	(128 993 941)	–	–	–	(128 993 941)
Lease liability	(9 849 292)	(285 305)	(852 621)	(536 218)	(1 534 883)	(6 640 265)	–	(9 849 292)
Other liability balances	(39 995 980)	(39 995 980)	–	–	–	–	–	(39 995 980)
Subordinated debt	(239 133 660)	(1 357 466)	(294 411)	(4 920 827)	(6 589 996)	(67 088 227)	(158 882 733)	(239 133 660)
Preference shares	(35 848 221)	–	–	(1 070 381)	(1 088 122)	(33 689 718)	–	(35 848 221)
Total liabilities	(5 027 621 840)	(2 071 518 245)	(1 130 157 987)	(712 392 258)	(647 918 006)	(306 752 611)	(158 882 733)	(5 027 621 840)
Net liquidity gap	1 515 940 931	(257 449 704)	(796 398 891)	(440 048 479)	(18 238 554)	2 411 355 860	616 720 699	1 515 940 931
Cumulative liquidity gap		(257 449 704)	(1 053 848 595)	(1 493 897 074)	(1 512 135 628)	899 220 232	1 515 940 931	1 515 940 931

5. Financial risk management (continued)

(b) Liquidity risk (continued)

As noted on page 91, the liquidity risk disclosure was updated to reflect contractual cash flows. The disclosure for the prior year was as follows:

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)
Group 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	73 799 552	147 560 498
Repurchase agreements	113 278 612	113 278 612	–	–	–	–	–	113 278 612
Loans and advances to customers	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	5 548 996 984	1 623 150 965	483 255 324	66 382 386	188 256 526	1 631 560 087	1 556 391 696	5 548 996 984
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)	(113 133 452)	(4 486 475 859)
Borrowings	(240 593 469)	(240 593 469)	–	–	–	–	–	(240 593 469)
Subordinated debt	(240 859 234)	(3 325 269)	(1 959 735)	(2 983 977)	(7 161 315)	(77 851 041)	(147 577 897)	(240 859 234)
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)	(1 628 099 791)	(834 264 655)	(426 613 341)	(1 595 706 878)	(316 383 873)	(260 711 349)	(5 061 779 887)
Net liquidity gap	487 217 097	(4 948 826)	(351 009 331)	(360 230 955)	(1 407 450 352)	1 315 176 214	1 295 680 347	487 217 097
Cumulative liquidity gap		(4 948 826)	(355 958 157)	(716 189 112)	(2 123 639 464)	(808 463 250)	487 217 097	487 217 097

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Derivatives instruments are presented at gross payable and receivable for both assets and liabilities.

Amounts in Pula	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Group and Company							
2023							
Assets							
Contractual amounts receivable	**425 193 299**	**341 057 034**	**459 679 532**	**–**	**–**	**–**	**1 225 929 865**
Contractual amounts payable	**(420 394 061)**	**(336 021 925)**	**(438 732 272)**	**–**	**–**	**–**	**(1 195 148 258)**
Total	**4 799 238**	**5 035 109**	**20 947 260**	**–**	**–**	**–**	**30 781 607**
Liabilities							
Contractual amounts receivable	**609 583 880**	**280 594 678**	**253 438 518**	**–**	**–**	**–**	**1 143 617 076**
Contractual amounts payable	**(614 174 168)**	**(284 563 034)**	**(257 037 850)**	**–**	**–**	**–**	**(1 155 775 052)**
Total	**(4 590 288)**	**(3 968 356)**	**(3 599 332)**	**–**	**–**	**–**	**(12 157 976)**

Amounts in Pula	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Group and Company							
2022							
Assets							
Contractual amounts receivable	689 535 648	495 824 995	–	499 998	–	–	1 185 860 641
Contractual amounts payable	(677 525 456)	(476 077 488)	–	(493 941)	–	–	(1 154 096 885)
Total	12 010 192	19 747 507	–	6 057	–	–	31 763 756
Liabilities							
Contractual amounts receivable	513 072 858	301 021 980	–	–	–	–	814 094 838
Contractual amounts payable	(520 097 624)	(312 428 036)	–	–	–	–	(832 525 660)
Total	(7 024 766)	(11 406 056)	–	–	–	–	(18 430 822)

5. Financial risk management (continued)

(b) Liquidity risk (continued)

The table below shows the contractual expiry by maturity of the Bank's off-balance sheet exposures namely financial guarantees, letters of credit and loan commitments.

Amounts in Pula	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
Group and Company 2023							
Financial guarantees	**17 467 783**	**159 414 584**	**104 004 654**	**64 005 002**	**62 901 441**	**38 422 863**	**446 216 327**
Letters of credit	**61 997 319**	**8 478 552**	**–**	**–**	**–**	**–**	**70 475 871**
Loan commitments	**76 922 103**		**–**	**–**	**–**	**–**	**76 922 103**
Total commitments and guarantees	**156 387 205**	**167 893 136**	**104 004 654**	**64 005 002**	**62 901 441**	**38 422 863**	**593 614 301**
Group and Company 2022							
Financial guarantees	347 179	1 951 607	141 707 295	16 837 970	78 863 205	56 253 806	295 961 062
Letters of credit	–	–	–	–	–	–	–
Loan commitments	123 867 871	–	–	–	–	–	123 867 871
Total commitments and guarantees	124 215 050	1 951 607	141 707 295	16 837 970	78 863 205	56 253 806	419 828 933

In the maturity gap analysis for off-balance sheet exposures, the time bucket designated as up to 1 month encompasses instruments payable on demand.

(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 the Group's operations.

The objective of the Group is to manage operational risks 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 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.

5. Financial risk management (continued)

(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% (2022: 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.

In the current year, we have revised the capital risk management disclosure note to exclude details on items classified as credit risk-weighted assets alongside their respective risk weights. This revision is made in recognition that the section from the regulatory return containing such information is not subject to statutory audit.

The following table shows the capital adequacy for the Bank based on Basel II:

	Group	
Amounts in Pula	2023	2022
Tier 1 capital		
Stated capital	**140 000 000**	140 000 000
Retained income	**537 410 660**	372 813 359
Less: Intangible asset and right-of-use assets	**(11 182 986)**	(10 901 124)
Credit loss reserve	**15 289 391**	15 289 391
	681 517 065	517 201 626
Tier 2 capital		
General provision – ECL	**57 485 811**	43 646 636
Subordinated debt	**144 400 000**	154 000 000
Preference shares	**26 132 000**	26 132 000
	228 017 811	223 778 636
Total regulatory capital	**909 534 876**	740 980 262
TOTAL RISK WEIGHTED ASSETS		
Credit risk weighted assets	**4 598 864 872**	3 491 302 522
Market risk weighted assets	**3 519 550**	2 387 887
Operational risk weighted assets	**425 898 192**	336 959 384
	5 028 282 614	3 830 649 793
Capital adequacy ratio	**18.09%**	19.34%
Regulatory requirement	**12.50%**	12.50%

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 ALCO monitors interest rate risk in the Bank.

Interest rate gap position has been included in current year financial statements as at the reporting date with an interest rate sensitivity analysis based on it. In the current year, a more detailed bucketing approach has been adopted. Each line item is now individually classified within the repricing time bucket based on its repricing date and structure. This refined methodology provides a granular analysis of the repricing characteristics of each instrument. Additionally, this aims to provide stakeholders with a more comprehensive understanding of the potential impact of interest rate fluctuations on the financial position and performance of the Group.

Interest rate gap position

Amounts in Pula	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Group 2023									
Assets									
Cash and cash equivalents	1 666 621 978	1 446 777 967	152 735 536	–	–	–	–	67 108 475	1 666 621 978
Investment securities	365 558 494	19 365 000	–	134 048 257	–	133 148 330	73 649 672	5 347 235	365 558 494
Loans and advances to customers	4 232 420 496	2 139 470 064	1 313 607	3 909 892	14 454 185	375 540 547	1 732 692 987	(34 960 786)	4 232 420 496
Derivative financial assets	30 370 142	–	–	–	–	–	–	30 370 142	30 370 142
Other assets	15 350 758	–	–	–	–	–	–	15 350 758	15 350 758
Total assets	6 310 321 868	3 605 613 031	154 049 143	137 958 149	14 454 185	508 688 877	1 806 342 659	83 215 824	6 310 321 868
Liabilities									
Deposits from customers	(5 276 513 605)	(1 837 303 792)	(741 530 236)	(721 508 768)	(772 041 611)	(315 627 568)	–	(888 501 630)	(5 276 513 605)
Balances due to other banks	(175 601 273)	(40 214 478)	–	(134 048 257)	–	–	–	(1 338 538)	(175 601 273)
Other liabilities	(51 426 147)	–	–	–	–	–	–	(51 426 147)	(51 426 147)
Derivative financial liabilities	(12 047 176)	–	–	–	–	–	–	(12 047 176)	(12 047 176)
Lease liabilities	(8 861 153)	(263 376)	(464 916)	(662 365)	(1 321 113)	(6 149 383)	–	–	(8 861 153)
Borrowings	(184 594 936)	(33 000 000)	(15 000 000)	(135 132 001)	–	–	–	(1 462 935)	(184 594 936)
Total liabilities	(5 709 044 290)	(1 910 781 646)	(756 995 152)	(991 351 391)	(773 362 724)	(321 776 951)	–	(954 776 426)	(5 709 044 290)
Net repricing gap	601 277 578	1 694 831 385	(602 946 009)	(853 393 242)	(758 908 539)	186 911 926	1 806 342 659	(871 560 602)	601 277 578
Cumulative repricing gap		1 694 831 385	1 091 885 376	238 492 134	(520 416 405)	(333 504 479)	1 472 838 180	601 277 578	601 277 578

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate risk (continued)

Interest rate gap position (continued)

Amounts in Pula	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Group 2022									
Assets									
Cash and cash equivalents	1 489 385 521	1 404 173 730	25 510 204	–	–	–	–	59 701 587	1 489 385 521
Investments securities	147 560 498	–	–	–	–	71 227 335	73 649 672	2 683 491	147 560 498
Loans and advances to customers	3 658 943 806	2 155 632 029	475 297	1 363 208	9 186 037	320 652 389	1 233 980 196	(62 345 350)	3 658 943 806
Derivative financial assets	31 771 613	–	–	–	–	–	–	31 771 613	31 771 613
Other assets	13 934 559	–	–	–	–	–	–	13 934 559	13 934 559
Total assets	5 341 595 997	3 559 805 759	25 985 501	1 363 208	9 186 037	391 879 724	1 307 629 868	45 745 900	5 341 595 997
Liabilities									
Deposits from customers	(4 486 475 859)	(1 561 858 630)	(1 092 322 648)	(545 966 315)	(597 935 921)	(154 776 847)	–	(533 615 498)	(4 486 475 859)
Balances due to other banks	(127 551 020)	–	–	(127 551 020)	–	–	–	–	(127 551 020)
Derivative financial liabilities	(17 874 053)	–	–	–	–	–	–	(17 874 053)	(17 874 053)
Lease liability	(7 811 713)	(255 465)	(503 829)	(720 183)	(1 323 365)	(5 008 871)	–	–	(7 811 713)
Other liabilities	(39 995 980)	–	–	–	–	–	–	(39 995 980)	(39 995 980)
Borrowings	(184 889 521)	(33 000 000)	(15 000 000)	(135 132 000)	–	–	–	(1 757 521)	(184 889 521)
Total liabilities	(4 864 598 146)	(1 595 114 095)	(1 107 826 477)	(809 369 518)	(599 259 286)	(159 785 718)	–	(593 243 052)	(4 864 598 146)
Net repricing gap	476 997 851	1 964 691 664	(1 081 840 976)	(808 006 310)	(590 073 249)	232 094 006	1 307 629 868	(547 497 152)	476 997 851
Cumulative Repricing gap		1 964 691 664	882 850 688	74 844 378	(515 228 871)	(283 134 865)	1 024 495 003	476 997 851	476 997 851

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate risk (continued)

Interest rate gap position (continued)

Amounts in Pula	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Company 2023									
Assets									
Cash and cash equivalents	1 666 621 978	1 446 777 967	152 735 536	–	–	–	–	67 108 475	1 666 621 978
Investment securities	365 558 494	19 365 000	–	134 048 257	–	133 148 330	73 649 672	5 347 235	365 558 494
Loans and advances to customers	4 232 420 496	2 139 470 064	1 313 607	3 909 892	14 454 185	375 540 547	1 732 692 987	(34 960 786)	4 232 420 496
Derivative financial assets	30 370 142	–	–	–	–	–	–	30 370 142	30 370 142
Other assets	14 556 476	–	–	–	–	–	–	14 556 476	14 556 476
Total assets	6 309 527 586	3 605 613 031	154 049 143	137 958 149	14 454 185	508 688 877	1 806 342 659	82 421 542	6 309 527 586
Liabilities									
Deposits from customers	(5 288 468 390)	(1 846 603 793)	(741 530 236)	(721 508 768)	(772 041 611)	(315 627 568)	–	(891 156 414)	(5 288 468 390)
Balances due to other banks	(175 601 273)	(40 214 478)	–	(134 048 257)	–	–	–	(1 338 538)	(175 601 273)
Other liabilities	(51 245 654)	–	–	–	–	–	–	(51 245 654)	(51 245 654)
Derivative financial liabilities	(12 047 176)	–	–	–	–	–	–	(12 047 176)	(12 047 176)
Lease liabilities	(8 861 153)	(263 376)	(464 916)	(662 365)	(1 321 113)	(6 149 383)	–	–	(8 861 153)
Borrowings	(184 594 936)	(33 000 000)	(15 000 000)	(135 132 001)	–	–	–	(1 462 935)	(184 594 936)
Total liabilities	(5 720 818 582)	(1 920 081 647)	(756 995 152)	(991 351 391)	(773 362 724)	(321 776 951)	–	(957 250 717)	(5 720 818 582)
Net repricing gap	588 709 004	1 685 531 384	(602 946 009)	(853 393 242)	(758 908 539)	186 911 926	1 806 342 659	(874 829 175)	588 709 004
Cumulative repricing gap		1 685 531 384	1 082 585 375	229 192 133	(529 716 406)	(342 804 480)	1 463 538 179	588 709 004	588 709 004

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate risk (continued)

Interest rate gap position (continued)

Amounts in Pula	Carrying amount	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Company 2022									
Assets									
Cash and cash equivalents	1 489 385 521	1 404 173 730	25 510 204	–	–	–	–	59 701 587	1 489 385 521
Investments securities	147 560 498	–	–	–	–	71 227 335	73 649 672	2 683 491	147 560 498
Loans and advances to customers	3 658 943 806	2 155 632 029	475 297	1 363 208	9 186 037	320 652 389	1 233 980 196	(62 345 350)	3 658 943 806
Derivative financial assets	31 771 613	–	–	–	–	–	–	31 771 613	31 771 613
Other assets	13 586 528	–	–	–	–	–	–	13 586 528	13 586 528
Total assets	5 341 247 966	3 559 805 759	25 985 501	1 363 208	9 186 037	391 879 724	1 307 629 868	45 397 869	5 341 247 966
Liabilities									
Deposits from customers	(4 495 307 483)	(1 561 858 630)	(1 092 322 648)	(545 966 315)	(597 935 921)	(154 776 847)	–	(542 447 122)	(4 495 307 483)
Balances due to other banks	(127 551 020)	–	–	(127 551 020)	–	–	–	–	(127 551 020)
Derivative financial liabilities	(17 874 053)	–	–	–	–	–	–	(17 874 053)	(17 874 053)
Lease liability	(7 811 713)	(255 465)	(503 829)	(720 183)	(1 323 365)	(5 008 871)	–	–	(7 811 713)
Other liabilities	(39 941 052)	–	–	–	–	–	–	(39 941 052)	(39 941 052)
Borrowings	(184 889 521)	(33 000 000)	(15 000 000)	(135 132 000)	–	–	–	(1 757 521)	(184 889 521)
Total liabilities	(4 873 374 842)	(1 595 114 095)	(1 107 826 477)	(809 369 518)	(599 259 286)	(159 785 718)	–	(602 019 748)	(4 873 374 842)
Net repricing gap	467 873 124	1 964 691 664	(1 081 840 976)	(808 006 310)	(590 073 249)	232 094 006	1 307 629 868	(556 621 879)	467 873 124
Cumulative repricing gap		1 964 691 664	882 850 688	74 844 378	(515 228 871)	(283 134 865)	1 024 495 003	467 873 124	467 873 124

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate sensitivity analysis

Interest rate sensitivity analysis as at the reporting date are set out below:

Amounts in Pula	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Group 2023								
Total assets	**3 605 613 031**	**154 049 143**	**137 958 149**	**14 454 185**	**508 688 877**	**1 806 342 659**	**83 215 824**	**6 310 321 868**
Total liabilities	**(1 910 781 646)**	**(756 995 152)**	**(991 351 391)**	**(773 362 724)**	**(321 776 951)**	**–**	**(954 776 426)**	**(5 709 044 290)**
Interest sensitivity gap	**1 694 831 385**	**(602 946 009)**	**(853 393 242)**	**(758 908 539)**	**186 911 926**	**1 806 342 659**	**(871 560 602)**	**601 277 578**

Increase/(decrease) in profit or loss due to an increase in average interest rate

1%	14 728 382
2%	29 456 764
3%	44 185 145

A corresponding average decrease in interest rates would have the same, but opposite effect.

No separate Company-specific table has been included as the difference with Group is only between on other assets and other liabilities with immaterial difference.

Amounts in Pula	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non Bearing	Total
Group 2022								
Total assets	3 559 805 759	25 985 501	1 363 208	9 186 037	391 879 724	1 307 629 868	45 745 900	5 341 595 997
Total liabilities	(1 595 114 095)	(1 107 826 477)	(809 369 518)	(599 259 286)	(159 785 718)	–	(593 243 052)	(4 864 598 146)
Interest sensitivity gap	1 964 691 664	(1 081 840 976)	(808 006 310)	(590 073 249)	232 094 006	1 307 629 868	(547 497 152)	476 997 851

Increase/(decrease) in profit or loss due to an increase in average interest rate.

1%	10 244 950
2%	20 489 900
3%	30 734 850

A corresponding average decrease in interest rates would have the same, but opposite effect.

No separate Company-specific table has been included as the difference with Group is only between on other assets and other liabilities with immaterial difference.

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate sensitivity analysis (continued)

Contractual interest rates of financial assets and liabilities

As noted on page 98, interest rate risk disclosure was updated to reflect the Bank's financial condition to movements in interest rates. The disclosure for the prior year was as follows:

	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	

5. Financial risk management (continued)

(e) Market risk (continued)

Interest rate sensitivity analysis (continued)

Contractual interest rates of financial assets and liabilities

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

Amounts in Pula	Group 2023 %	Company 2023 %	Group 2022 %	Company 2022 %
Assets:				
Standing deposit facility	**1.40**	**1.40**	1.65	1.65
Deposits with banking institutions	**4.00**	**4.00**	3.8	3.8
Loans and advances to customers – Consumer Lending	**25.00**	**25.00**	24.51	24.51
Loans and advances to customers – Corporate	**8.51**	**8.51**	8.93	8.93
Liabilities:				
Customer deposits (average rate)	**3.92**	**3.92**	3.92	3.91
Subordinated debt (average rate)	**8.33**	**8.33**	8.33	8.33

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.

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:

	Group and Company						
Amounts in Pula	Assets	Liabilities	Forward/Spot	Net	Long	Short	Sensitivity
2023							
USD	1 013 947 240	1 074 978 962	63 604 064	2 572 342	2 572 342	–	25 723
GBP	40 014 558	64 092 129	24 055 913	(21 658)	–	(21 658)	(217)
EUR	490 971 161	161 430 189	(329 961 375)	(420 403)	–	(420 403)	(4 204)
ZAR	285 295 152	160 198 314	(128 871 357)	(3 774 519)	–	(3 774 519)	(37 745)
INR	2 169 841	–	(78 697)	2 091 144	2 091 144		20 911
JPY	2 003 864	107 202	(474)	1 896 188	1 896 188	–	18 962
ZMW	6 651	–	–	6 651	6 651	–	67
	1 834 408 467	1 460 806 796	(371 251 926)	2 349 745	6 566 325	(4 216 580)	23 497

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:

	Group and Company						
Amounts in Pula	Assets	Liabilities	Forward/Spot	Net	Long	Short	Sensitivity
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)	162 943	162 943	–	1 629
ZAR	124 816 323	118 466 713	(6 420 369)	(70 759)	–	(70 759)	(708)
INR	2 185 895	–	(543 647)	1 642 248	1 642 248	–	16 422
JPY	895 211	38 230	–	856 981	856 981	–	8 570
ZMW	482 312	–	(81 798)	400 514	400 514	–	4 005
	1 413 010 495	1 137 271 801	(271 354 439)	4 384 255	4 455 014	(70 759)	43 842

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.

5. Financial risk management (continued)

(f) Compliance risk

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

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

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

6. Cash and cash equivalents

	Group and Company	
Amounts in Pula	2023	2022
Balances with the Central Bank	347 348 710	274 116 145
Balances with local banks	725 848 135	711 587 569
Balances with foreign banks	527 074 609	443 980 222
Cash balances	66 423 082	59 720 227
Gross cash and cash equivalents	1 666 694 536	1 489 404 163
Expected credit losses	(72 558)	(18 642)
Total cash and cash equivalents	1 666 621 978	1 489 385 521

Balances with other banks relate to operating account balances domiciled at the various correspondent banking institutions as well as placements with other banks for a period of 1 day up to 3 months from the date of placement. As at the reporting date, the Bank had a placement with First Capital Bank Mozambique, a related party, amounting to P67 173 070 (2022: Pnil).

Balances with the Central Bank relates to cash held in the Bank's current account and primary reserve requirement which is determined through "reserves averaging". The Bank does not have to meet the primary reserve requirement daily but, rather, fulfil this statutory requirement on an average basis. This makes them available for use and hence classified as cash and cash equivalents.

7. Investment securities

	Group and Company	
Amounts in Pula	2023	2022
Local registered government bonds	168 364 109	147 594 171
Bonds with foreign banks	64 731 010	–
Placements with related parties	135 338 471	–
Gross investment securities	368 433 590	147 594 171
Expected credit losses	(2 875 096)	(33 673)
Net investment securities	365 558 494	147 560 498

As at the reporting date, pledges have been made with the Bank of Botswana against bonds and Bank of Botswana certificates, with a combined par value of P170 000 000 (2022: P160 000 000).

Refer to Note 5 (b) on financial risk management for undiscounted maturity analysis disclosure.

8. Derivative financial instruments

	Group and Company	
Amounts in Pula	2023	2022 Restated
Derivative financial assets		
Foreign currency swaps	–	236 163
Foreign currency forward contracts	30 370 142	31 535 450
	30 370 142	31 771 613
Derivative financial liabilities		
Foreign currency forward contracts	12 047 176	17 874 053
Net gains on derivative financial instruments		
Net (losses)/gains on foreign currency swaps	(2 988 938)	6 634 795
Net gains on foreign currency forward contracts	30 507 956	18 011 100
	27 519 018	24 645 895

The derivative financial assets and liabilities are measured at FVTPL. The valuation technique and fair value hierarchy is disclosed in note 4 (c) for financial assets and liabilities.

Refer to note 43 for details relating to the prior year restatement details.

9. Loans and advances to customers

Amounts in Pula	Group and Company 2023	Group and Company 2022
Gross loans and advances are receivable as follows:		
Gross loans and advances	**4 334 992 745**	3 753 302 344
Expected credit losses	**(102 572 249)**	(94 358 538)
Net loans and advances	**4 232 420 496**	3 658 943 806

Loans and advances are issued at market related interest rates. The Directors consider that the carrying amount of loans and advances approximates their fair values.

Amounts in Pula	Stage 1	Stage 2	Stage 3	Total
Group and Company 2023				
Opening impairment as at 1 January 2023	**(32 940 610)**	**(27 248 933)**	**(34 168 995)**	**(94 358 538)**
Transfer between stages:	**(9 831 528)**	**17 582 170**	**(7 750 642)**	**–**
Net transfer (to)/from stage 1	**586 176**	**(380 221)**	**(205 955)**	**–**
Net transfer (to)/from stage 2	**(9 073 531)**	**13 753 532**	**(4 680 001)**	**–**
Net transfer (to)/from stage 3	**(1 344 173)**	**4 208 859**	**(2 864 686)**	**–**
Net impairments (recognised)/released	**(5 076 195)**	**(9 002 211)**	**(7 781 290)**	**(21 859 696)**
Net impairment movement during the year	**(5 076 195)**	**(9 002 211)**	**(7 781 290)**	**(21 859 696)**
Impaired accounts written off	**3 765 138**	**3 508 039**	**7 450 493**	**14 723 670**
Net movement on interest in suspense	**–**	**–**	**(1 077 685)**	**(1 077 685)**
Balance as at 31 December 2023	**(44 083 195)**	**(15 160 935)**	**(43 328 119)**	**(102 572 249)**

Amounts in Pula	Stage 1	Stage 2	Stage 3	Total
Group and Company 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)	–
Transfer (to)/from stage 1	4 300 946	(484 527)	(3 816 419)	–
Transfer (to)/from stage 2	896 341	434 674	(1 331 015)	–
Transfer (to)/from stage 3	634 645	440 013	(1 074 658)	–
Net impairments (recognised)/released	(7 391 238)	(9 472 531)	(10 120 988)	(26 984 757)
Net impairment movement during the year	(7 391 238)	(9 472 531)	(10 120 988)	(26 984 757)
Impaired accounts written off	–	–	17 868 894	17 868 894
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)

In the prior year reconciliation, recoveries from amounts previously written off totalling P10 442 014 were inaccurately presented as part of the reconciliation of ECLs resulting in the understatement of the net impairment movement during the year (disclosed as P16 542 743 in the prior year) by the same amount. The error was corrected in the current year, with the prior year disclosure updated accordingly.

10. Other assets

Amounts in Pula	Group 2023	Group 2022 Restated	Company 2023	Company 2022 Restated
Clearing accounts	**5 109 951**	2 350 116	**5 109 951**	2 350 116
EFT retail account	**–**	2 509 672	**–**	2 509 672
Prepaid expenses	**3 826 229**	2 630 220	**3 813 514**	2 623 054
Prepaid staff benefit	**11 878 484**	13 550 350	**11 878 484**	13 550 350
Security deposit	**509 171**	404 973	**509 171**	404 973
Visa settlement and collateral	**7 838 381**	5 840 043	**7 838 381**	5 840 043
Other	**2 788 525**	3 234 728	**1 608 144**	2 886 697
	31 950 741	30 520 102	**30 757 645**	30 164 905
Reconciliation of other assets to other financial assets (note 4 (c))				
Other assets (total)	**31 950 741**	30 520 102	**30 757 645**	30 164 905
Prepaid expense	**(3 826 229)**	(2 630 220)	**(3 813 514)**	(2 623 054)
Withholding tax receivable	**(386 099)**	–	**–**	–
Prepaid staff benefit	**(11 878 484)**	(13 550 350)	**(11 878 484)**	(13 550 350)
Security deposit	**(509 171)**	(404 973)	**(509 171)**	(404 973)
	15 350 758	13 934 559	**14 556 476**	13 586 528
Movement in other assets (per statement of cash flows) (note 36)				
Movement in other assets	**1 430 639**	7 083 067	**592 740**	6 727 870
Non-cash movement	**(802 398)**	(5 073 032)	**(641 809)**	(5 073 032)
	628 241	2 010 035	**(49 069)**	1 654 838

In prior year, forward contracts revaluation assets amounting to P31 535 450 were erroneously classified and recognised as other assets instead of derivative financial assets. This has been corrected in the current year, with the comparatives restated accordingly. Refer to note 43 for more details.

Included in “Other” is a receivable of P292 771 (2022: P1 325 494) from related parties. Refer to note 39 for related party transactions disclosure.

11. Property, equipment, and intangible assets

Amounts in Pula	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Leasehold improvements	Capital work in progress	Total
Group and Company 2023								
Cost or valuation								
At beginning 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
Additions	881 430	6 212 545	1 383 126	2 106 802	25 222 545	377 122	5 004 994	41 188 564
Transfers from capital work in progress	–	–	–	–	3 424 532	384 735	(3 809 267)	–
Disposals and write-offs	(307 722)	(1 025 654)	–	(499 345)	–	–	–	(1 832 721)
At end of year	4 326 433	38 574 013	24 895 207	10 593 912	84 447 077	6 126 883	3 824 240	172 787 765
Accumulated depreciation								
At beginning of year	2 327 043	26 242 049	19 741 821	6 321 365	201 092	731 999	–	55 565 369
Charge for the year	537 896	4 087 719	1 611 120	1 098 311	1 310 260	1 171 823	–	9 817 129
Disposals and write-offs	(222 147)	(833 590)	–	(499 276)	–	–	–	(1 555 013)
At end of year	2 642 792	29 496 178	21 352 941	6 920 400	1 511 352	1 903 822	–	63 827 485
Carrying amount	1 683 641	9 077 835	3 542 266	3 673 512	82 935 725	4 223 061	3 824 240	108 960 280

11. Property, equipment, and intangible assets (continued)

Amounts in Pula	Motor vehicles	Furniture and fittings	Intangible assets	Computer hardware	Freehold property	Leasehold improvements	Capital work in progress	Total
Group and Company 2022								
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)	–	–	–	(552 461)
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

Freehold property consists of a commercial property, occupied by the Bank, measuring 2 380 m², 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 5 889 m².

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 Mr. 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 12 October 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.

11. Property, equipment, and intangible assets (continued)

Valuation technique and significant unobservable inputs

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

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)

Amounts in Pula	Group and Company 2023	2022
Property revaluation reserve		
Opening balance	**4 932 535**	3 006 111
Revaluation gain	**–**	2 469 774
Deferred tax on revaluation gain	**–**	(543 350)
	4 932 535	4 932 535
Reconciliation of net carrying amount		
Opening cost	**55 800 000**	55 200 000
Additions	**25 222 545**	–
Transfers from capital work in progress	**3 424 532**	510 177
Revaluation during the year	**–**	89 823
Accumulated depreciation	**(1 511 352)**	(201 092)
Closing carrying amount	**82 935 725**	55 598 908

11. Property, equipment, and intangible assets (continued)

Fair value sensitivity analysis

The fair value measurement of properties is primarily determined using the price per square meter as the main input. As such, variations in the price per square meter can significantly impact the overall fair value of the properties.

Amounts in Pula	Open Market Value	Total Square Metres	Value per Square Metre
Group and Company 2023			
Old Lobatse Road Plot 17954	16 350 000	2 380	6 870
New CBD Plot 74768	68 097 077	5 889	11 563
	84 447 077	8 269	
Increase in other comprehensive income due to an increase in value per square meter.			
1%		1 524 240	
2%		3 048 480	
3%		4 572 720	

Amounts in Pula	Open Market Value	Total Square Metres	Value per Square Metre
Group and Company 2022			
Old Lobatse Road Plot 17954	16 350 000	2 380	6 870
New CBD Plot 74768	39 450 000	4 310	9 153
	55 800 000	6 690	
Increase in other comprehensive income due to an increase in value per square meter.			
1%		1 071 931	
2%		2 143 861	
3%		3 215 792	

In the prior year's financial statements, the measurement of New CBD Plot 74768 was disclosed as 5 061 m^2, determined based on a compound measurement. in the current year, the disclosure has been revised to delineate the portion of the compound relevant to the Bank's operations. This revision aims to provide a more accurate representation of the space utilised by the Bank and its associated value per square meter.

12. Right-of-use assets

	Group and Company	
Amounts in Pula	2023	2022
Right-of-use assets (Bank as lessee)		
Cost		
Opening balance	9 884 033	6 681 663
Additions	3 754 760	8 874 541
Terminated during the year	(2 179 097)	(5 672 171)
At end of year	11 459 696	9 884 033
Accumulated depreciation		
Opening balance	2 699 155	5 170 332
Charge for the year	2 879 180	2 640 379
Expired and terminated during the year	(1 813 333)	(5 111 556)
At end of year	3 765 002	2 699 155
Carrying amount	7 694 694	7 184 878
Amounts recognised in profit/loss		
Interest expense on lease liabilities	749 153	579 004
Expenses – short term and low value leases	617 838	918 933
Depreciation charge	2 879 180	2 640 379
	4 246 171	4 138 316

As at the reporting date, the Directors are of the opinion that there was no indication of impairment present in relation to these assets.

Refer to Note 5 (b) on financial risk management for undiscounted maturity analysis disclosure.

13. Deposits from customers

	Group		Company	
Amounts in Pula	2023	2022	2023	2022
Current accounts	782 433 923	449 608 735	784 918 696	458 440 359
Savings accounts	119 645 056	84 303 657	119 645 056	84 303 657
Foreign currency denominated accounts	867 111 621	578 059 683	867 111 621	578 059 683
Call deposit accounts	368 299 562	181 311 972	368 299 562	181 311 972
Term deposit accounts	3 139 023 443	3 193 191 812	3 148 493 455	3 193 191 812
	5 276 513 605	4 486 475 859	5 288 468 390	4 495 307 483

14. Balances due to other banks

	Group and Company	
Amounts in Pula	**2023**	2022 Restated
Deposits from other banks	**175 601 273**	127 551 020
	175 601 273	127 551 020

Refer to Note 5 (b) on financial risk management for undiscounted maturity analysis disclosure.

In prior year, foreign currency swap liability to the value of P113 042 449 was erroneously recognised and classified as balances due to other banks. This has been corrected in the current year, with the comparatives restated accordingly. Refer to note 43 for more details.

15. Lease liabilities

	Group and Company	
Amounts in Pula	**2023**	2022
Carrying amount	**8 861 153**	7 811 713
Opening balance	**7 811 713**	2 479 674
Additions	**3 754 760**	8 874 541
Expired and terminated	**(429 351)**	(980 029)
Finance cost	**749 153**	579 004
Lease payments	**(3 025 122)**	(3 141 477)
Closing balance	**8 861 153**	7 811 713

Refer to Note 5 (b) on financial risk management for undiscounted maturity analysis disclosure.

16. Other liabilities

Amounts in Pula	Group 2023	Group 2022 Restated	Company 2023	Company 2022 Restated
Accrued expenses	**5 863 745**	7 995 764	**5 863 745**	7 931 632
Banker's cheques issued and uncleared	**38 041**	1 342 220	**38 041**	1 342 220
Clearing accounts	**22 356 392**	15 614 296	**22 356 392**	15 614 296
ECLs on guarantees and letters of credit	**7 580 491**	4 366 056	**7 580 491**	4 366 056
Payroll accruals	**20 136 108**	16 245 790	**20 050 781**	16 245 790
VAT and withholding taxes	**4 877 329**	12 042 134	**4 769 357**	11 961 401
Visa settlement	**4 280 506**	3 531 630	**4 280 506**	3 531 630
Related party payables	**2 608 758**	2 696 034	**2 608 758**	2 696 034
Unclaimed balances	**5 505 704**	2 584 466	**5 505 704**	2 584 466
Insurance premiums payable	**3 012 017**	1 725 040	**3 012 017**	1 725 040
Others	**1 799 682**	1 034 007	**1 619 189**	1 043 211
	78 058 773	69 177 437	**77 684 981**	69 041 776
Movement in other liabilities per statement of cash flows (note 36)				
Movement in liabilities	**8 881 336**	(26 860 786)	**8 643 205**	(26 725 125)
Movement in non-cash	**(3 420 422)**	(355 910)	**(3 214 436)**	544 522
	5 460 914	(27 216 696)	**5 428 769**	(26 180 603)
Reconciliation of total liabilities to financial liabilities per note 4				
Trade and other payables (total)	**78 058 773**	69 177 437	**77 684 981**	69 041 776
Less: VAT and withholding taxes	**(4 877 329)**	(12 042 134)	**(4 769 357)**	(11 961 401)
Less: PAYE	**(1 619 189)**	(893 533)	**(1 619 189)**	(893 533)
Less: Payroll accruals	**(20 136 108)**	(16 245 790)	**(20 050 781)**	(16 245 790)
	51 426 147	39 995 980	**51 245 654**	39 941 052

In prior year, forward contracts revaluation liabilities amounting to P17 874 053 were erroneously recognised under other liabilities. The error has been corrected and comparatives restated. These have been classified under Derivative financial instruments. Refer to note 43 for more details.

17. Deferred tax assets and liabilities

	Group		Company	
Amounts in Pula	**2023**	2022	**2023**	2022
Deferred tax assets	**47 704**	1 601	**–**	–
Deferred tax liabilities	**20 742 590**	11 913 537	**20 742 590**	11 913 537

Analysis of deferred tax asset

	Group	
Amounts in Pula	**2023**	2022
Deferred income	**31 729**	–
Prepayments	**(2 797)**	1 601
Other temporary differences	**18 772**	–
Balance as at 31 December	**47 704**	1 601

Analysis of deferred tax liability

	Group and Company	
Amounts in Pula	**2023**	2022
Property and equipment	**1 907 567**	164 627
Accrued income	**(9 092 971)**	(7 846 594)
Revaluation of property	**1 391 228**	1 391 228
Deferred commission expense	**23 504 992**	15 865 550
Unrealised gain on mark-to-market	**4 031 054**	3 005 507
Other temporary differences	**(999 280)**	(666 781)
Balance as at 31 December	**20 742 590**	11 913 537

18. Subordinated debt

	Group and Company	
	2023	2022
Opening balance	**157 000 000**	187 000 000
Repayments during the year	**–**	(30 000 000)
	157 000 000	157 000 000
Accrued interest	**1 880 441**	2 267 597
Unamortised issue costs	**(417 505)**	(510 076)
	158 462 936	158 757 521

Subordinated debt comprises:

- 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.
- 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.
- 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. 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. 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.

Currently, there are no plans by management to exercise the call option pertaining to subordinated debt.

Refer to Note 5 (b) on financial risk management for undiscounted maturity analysis disclosure.

19. Preference shares

	Group and Company	
	2023	2022
Redeemable preference shares of no-par value		
Balance at beginning and end of the year	**26 132 000**	26 132 000

The preference shares earned dividend at the cumulative rate of 8.26%. Dividend on preference shares is paid semi-annually.

The preference shares are redeemable at the option of the Bank. Currently, there are no plans by management to exercise the call option pertaining to preference shares.

20. Stated capital

Amounts in Pula	Group and Company 2023	Group and Company 2022
Ordinary shares of no-par value		
Balance at beginning and end of the year	**140 000 000**	140 000 000

Stated capital comprises 101 833 333 (2022: 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

Amounts in Pula	Group and Company 2023	Group and Company 2022
Balance at beginning and end of year	**15 289 391**	15 289 391

The credit loss reserve was previously a regulatory requirement prior to adoption of IFRS 9, with the amount determined at 1.25% on the Banks credit risk weighted assets. The balance has remained the same pending directive from Bank of Botswana.

22. Interest income at effective interest rate

	Group		Company	
Amounts in Pula	2023	2022 Restated	2023	2022 Restated
Loans and advances	**642 291 926**	493 618 704	**642 291 926**	493 618 704
Investment securities*	**15 725 363**	9 109 316	**15 725 363**	9 109 316
Placement with other banks	**47 268 547**	17 285 023	**47 268 547**	17 285 023
	705 285 836	520 013 043	**705 285 836**	520 013 043

* *The prior year amount included P10 578 463 gains on currency swaps were incorrectly presented as interest income from investment securities. This was corrected in the current year with the prior year amounts restated. Refer note 43 for restatement details.*

23. Interest expense at effective interest rate

Amounts in Pula	Group 2023	Group 2022 Restated	Company 2023	Company 2022 Restated
Current accounts	**1 216 476**	909 449	**1 216 476**	909 449
Savings accounts	**2 538 871**	825 037	**2 538 871**	825 037
Call deposits	**7 351 170**	4 023 945	**7 351 170**	4 023 945
Fixed deposits	**223 671 357**	154 238 287	**223 841 369**	154 238 287
Deposits due to other banks*	**9 923 414**	2 306 045	**9 923 414**	2 306 045
Subordinated debt	**12 692 366**	11 918 222	**12 692 366**	11 918 222
Preference shares	**2 158 503**	1 971 878	**2 158 503**	1 971 878
Lease liabilities	**749 153**	579 004	**749 153**	579 004
Total interest expense	**260 301 310**	176 771 867	**260 471 322**	176 771 867

* *The prior year amount included P3 943 671 gains on currency swaps were incorrectly presented as interest income from investment securities. This was corrected in the current year with the prior year amounts restated. Refer note 43 for restatement details.*

24. Net fee and commission income

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Fees received at a point in time				
Insurance commission	**8 728 343**	6 385 834	**–**	–
Account activity fees	**3 643 157**	3 492 471	**3 645 820**	3 493 120
Card-based transaction fees	**4 923 470**	3 645 765	**4 923 470**	3 645 765
Cash deposit and withdrawal fees	**7 297 237**	7 417 627	**7 297 237**	7 417 627
Other fees and commission	**3 278 882**	1 715 843	**3 278 882**	1 715 843
	27 871 089	22 657 540	**19 145 409**	16 272 355
Fees received over time	**5 004 835**	6 877 062	**5 004 835**	6 877 062
Less: Fees and commission expense	**(4 558 973)**	(2 527 040)	**(4 558 973)**	(2 527 040)
Net fee and commission expense	**28 316 951**	27 007 562	**19 591 271**	20 622 377

Fees received over time relates to commission on bank guarantees and letters of credit which is earned over the life of the instruments.

25. Net gain on foreign exchange transactions

Amounts in Pula	Group and Company 2023	Group and Company 2022 Restated
Net foreign currency gains and losses	**28 163 648**	25 510 757
Commission on foreign currency transactions	**4 126 192**	3 182 138
	32 289 840	28 692 895

Refer to note 43 for more details on prior year restatement.

26. Other operating income

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Net gain on termination of lease contracts and disposal of property and equipment	**5 887**	376 443	**5 887**	376 443
Mobile banking	**61 077**	44 927	**61 077**	44 927
Orange money commission	**5 580**	–	**5 580**	–
Management fees	**–**	–	**733 404**	578 787
Other income	**2 491 987**	4 081 279	**2 491 987**	4 081 279
	2 564 531	4 502 649	**3 297 935**	5 081 436

27. Staff costs

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Salaries and wages	**61 347 122**	54 460 180	**60 724 900**	54 460 180
Contributions to staff defined contribution plan	**6 428 956**	5 558 622	**6 428 956**	5 558 622
Post employment benefits other than pension	**805 285**	1 085 064	**805 285**	1 085 064
Training costs	**1 069 522**	1 160 360	**1 069 522**	1 160 360
Other staff costs	**32 590 189**	20 358 042	**32 590 189**	20 358 042
	102 241 074	82 622 268	**101 618 852**	82 622 268

28. Premises and equipment costs

Amounts in Pula	Group and Company 2023	Group and Company 2022
Equipment hire	**1 589 251**	904 803
Rates and utilities	**1 690 138**	1 426 281
Premises and equipment repairs and maintenance	**1 248 708**	538 114
Security costs	**1 420 861**	1 334 964
	5 948 958	4 204 162

29. Information technology costs

	Group and Company	
Amounts in Pula	**2023**	2022
Computer repairs and maintenance	**27 996**	135 344
Software licensing costs	**13 066 845**	9 813 980
Internet connectivity	**528 288**	1 409 158
	13 623 129	11 358 482

30. Administration and general expenses

	Group		Company	
Amounts in Pula	**2023**	2022	**2023**	2022
Auditor's remuneration	**2 033 308**	1 586 062	**1 977 308**	1 541 543
Bank charges	**5 738 814**	6 417 274	**5 738 814**	6 417 274
Non-executive directors' fees and expenses	**3 203 835**	2 936 679	**3 203 835**	2 936 679
Fuel	**306 930**	282 551	**306 930**	282 551
Insurance	**1 569 374**	1 339 999	**1 559 470**	1 339 999
Legal and professional fees, fines and penalties	**3 930 498**	3 143 784	**3 907 425**	3 364 013
Marketing costs	**4 357 067**	3 048 547	**4 357 067**	3 048 547
Motor vehicle running costs	**114 446**	172 348	**114 446**	172 348
Operational losses	**159 005**	6 671 469	**159 005**	6 671 469
Other payroll lending costs	**4 662 656**	3 904 002	**4 662 656**	3 904 002
Staff welfare costs	**1 679 640**	1 558 802	**1 679 640**	1 558 802
Cash transportation expenses	**1 455 443**	1 439 763	**1 455 443**	1 439 763
Cleaning costs	**1 275 580**	1 064 532	**1 275 580**	1 064 532
Corporate subscriptions	**1 052 040**	943 911	**1 052 040**	943 911
Other administration costs	**8 462 154**	16 676 702	**8 413 008**	16 628 702
Postage	**1 058 445**	932 142	**1 058 445**	932 142
Printing and stationery	**597 151**	992 884	**597 151**	992 884
Professional subscriptions	**49 851**	58 129	**49 851**	58 129
Communication costs	**1 567 896**	2 121 917	**1 567 896**	2 121 917
Travel expenses	**1 415 140**	2 718 821	**1 415 140**	2 718 821
	44 689 273	58 010 318	**44 551 150**	58 138 028

31. Net impairment losses on financial instruments

	Group and Company	
Amounts in Pula	2023	2022
Net expected credit loss recognised/(released):		
– Investment securities and cash equivalents	**2 895 339**	(210 973)
– Loans and advances to customers	**21 859 696**	28 056 184
– Guarantees and letters of credit	**3 214 435**	544 522
	27 969 470	28 389 733
Recoveries on loans and advance to customers previously written off	**(2 469 907)**	(10 442 014)
	25 499 563	17 947 719

32. Income tax expense

	Group		Company	
Amounts in Pula	2023	2022	2023	2022
Current tax expense	**59 945 304**	44 576 167	**58 264 670**	43 370 254
Deferred tax expense	**8 782 950**	3 474 109	**8 829 053**	3 377 720
Income tax expense	**68 728 254**	48 050 276	**67 093 723**	46 747 974
Tax reconciliation				
Profit before taxation	**293 325 555**	217 363 479	**285 923 612**	211 429 371
Taxation at statutory rate of 22% (2022: 22%)	**64 531 622**	47 819 965	**62 903 195**	46 514 462
Disallowable expenses	**1 091 448**	131 374	**1 088 546**	134 575
Prior year under-provision	**3 105 184**	98 937	**3 101 982**	98 937
Taxation per profit or loss	**68 728 254**	48 050 276	**67 093 723**	46 747 974

33. Earnings and dividend per share

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.

	Group	
Amounts in Pula	2023	2022
Profit attributable to ordinary shareholders	**224 597 301**	169 313 203
Weighted average number of ordinary shares in issue	**101 833 333**	101 833 333
Basic and diluted earnings per share (Pula)	**2.2055**	1.6627
Dividend paid	**60 000 000**	51 497 438
Dividend per share (Pula)	**0.5892**	0.5057

34. Interest and non-interest income received

Amounts in Pula	Group 2023	Group 2022 Restated	Company 2023	Company 2022 Restated
Interest income	**705 285 836**	520 013 043	**705 285 836**	520 013 043
Non interest income	**90 690 340**	84 849 001	**82 698 064**	79 042 603
Non-cash items	**(41 527 429)**	(2 680 772)	**(41 527 429)**	(2 680 772)
Movement in accrued interest income	**(5 209 175)**	599 180	**(5 209 175)**	599 180
Total interest and non-interest income	**749 239 572**	602 780 452	**741 247 296**	596 974 054

Refer to note 43 for restatement details.

35. Interest paid

Amounts in Pula	Group 2023	Group 2022 Restated	Company 2023	Company 2022 Restated
Interest expense	**260 301 310**	176 771 867	**260 471 322**	176 771 867
Borrowing cost – IFRS 16	**(749 153)**	(579 004)	**(749 153)**	(579 004)
Movement in accrued interest	**(25 054 531)**	(43 000 146)	**(25 054 531)**	(43 000 146)
	234 497 626	133 192 717	**234 667 638**	133 192 717

Refer to note 43 for restatement details.

36. Cash paid to suppliers and employees

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Staff costs (note 27)	**102 241 074**	82 622 268	**101 618 852**	82 622 268
Prepaid staff benefit expense	**(4 319 355)**	3 353 880	**(4 319 355)**	3 353 880
Premises and equipment costs	**5 948 958**	4 204 162	**5 948 958**	4 204 162
Information technology costs	**13 623 129**	11 358 482	**13 623 129**	11 358 482
Operational losses	**(159 005)**	(6 671 469)	**(159 005)**	(6 671 469)
Administration and general expenses	**44 689 273**	58 010 318	**44 551 150**	58 138 028
Shared services costs	**37 651 005**	25 053 433	**37 651 005**	25 053 433
	199 675 079	177 931 074	**198 914 734**	178 058 784
Movement in other assets (note 10)	**628 241**	2 010 035	**(49 069)**	1 654 838
Movement in other liabilities (note 16)	**(5 460 914)**	(27 216 696)	**(5 428 769)**	(26 180 603)
	194 842 406	152 724 413	**193 436 896**	153 533 019

Refer to note 43 for restatement details.

37. Net movement in customer balances

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Liabilities to customers:				
Total deposits (note 13)	**5 276 513 605**	4 486 475 859	**5 288 468 390**	4 495 307 483
Total interest accrued	**(108 018 403)**	(84 007 825)	**(108 018 403)**	(84 007 825)
Deposits excluding accrued interest	**5 168 495 202**	4 402 468 034	**5 180 449 987**	4 411 299 658
Less prior year deposits excluding accrued interest	**(4 402 468 034)**	(3 671 803 377)	**(4 411 299 658)**	(3 671 803 377)
Movement in deposit balances	**766 027 168**	730 664 657	**769 150 329**	739 496 281

Amounts in Pula	Group and Company 2023	Group and Company 2022
Loans and advances to customers:		
Gross loans and advances (note 9)	**4 334 992 745**	3 753 302 344
Total interest accrued	**(13 023 208)**	(9 104 248)
Non-cash items	**20 273 349**	13 550 350
Adjusted loans and advances	**4 342 242 886**	3 757 748 446
Less prior year adjusted loans and advances	**(3 757 748 446)**	(2 968 807 031)
Net movement in loans and advances to customers	**584 494 440**	788 941 415

38. Accrued interest

	Group and Company	
Amounts in Pula	**2023**	2022
Term loan	**13 023 208**	9 104 248
Interbank lending	**–**	3 108
Investment securities	**1 280 016**	235 555
Total	**14 303 224**	9 342 911

39. Related party transactions

Related parties of the Group, include:

- subsidiaries of the Group and entities that have significant influence over the Group; and
- key management personnel, entities controlled, jointly controlled or significantly influenced by key management personnel 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.

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. Related party transactions (continued)

Compensation of key management personnel

Amounts in Pula	Group 2023	Group 2022	Company 2023	Company 2022
Short-term employee benefits	**26 408 700**	23 412 024	**26 011 150**	23 412 024
Post-employment benefits	**2 441 968**	1 465 818	**2 393 368**	1 465 818
	28 850 668	24 877 842	**28 404 518**	24 877 842

Amounts in Pula	Group and Company 2023	Group and Company 2022
Non-executive directors' emoluments and expenses	**3 203 835**	2 936 679

The Group and Company engage in certain transactions with related parties, which encompass management, directors, and entities associated with or under the control of the directors. These transactions may include loans, deposits, foreign currency dealings, and other services provided. All transactions with related parties are conducted on terms and conditions that are agreed upon in the normal course of business.

Amounts owed to and from related parties are payable on demand. The Group and Company maintains appropriate controls and procedures to ensure that transactions with related parties are conducted on an arm's length basis and in compliance with regulatory requirements.

As of the reporting date, an ECL provision totalling P3 220 190 (2022: P220 748) has been recognised for loans and advances extended to related parties. These allowances were established in accordance with the Group and Company's accounting policies and practices, reflecting management's assessment of credit risk associated with related party exposures.

Amounts in Pula	Group and Company 2023	Group and Company 2022
Loans and advances	**686 763**	220 217
Cash and cash equivalents	**47 677**	532
Investment securities	**2 484 439**	–
Off-balance sheet exposures	**1 311**	–
	3 220 190	220 749

Related party transactions, outstanding balances at reporting date, and the related interest expense and income for the year are as follows:

Amounts in Pula		Interest expense	Management fee income	Non-interest income	Investment in subsidiary	Balances receivable	Deposits
Company							
Jetwig Enterprises (Proprietary) Limited	**2023**	**170 012**	**733 404**	**2 663**	**1 000 000**	**135 603**	**11 784 773**
	2022	–	578 787	649	1 000 000	1 325 494	8 831 624

39. Related party transactions (continued)

Amounts in Pula		Net gains on swaps	Interest income	Dividend paid on ordinary Shares	Dividend paid on preference Shares	Management fees	Interest expense	Aircraft cost	Non interest income
Group									
FMBCH Plc	**2023**	**–**	**–**	**23 160 000**	**2 158 503**	**28 589 456**	**–**	**–**	**–**
	2022	–	1 264 339	19 878 011	1 971 878	19 035 095	–	–	–
First Capital Shared Services Limited	**2023**	**–**	**–**	**–**	**–**	**9 041 212**	**–**	**–**	**–**
	2022	–	–	–	–	6 018 338	–	–	–
First Capital Bank (Malawi) Plc	**2023**	**3 376**	**15 196**	**–**	**–**	**–**	**1 959 942**	**1 184 692**	**–**
	2022	6 495 509	46 001	–	–	–	–	978 733	–
First Capital Bank Mozambique	**2023**	**–**	**4 417 559**	**–**	**–**	**–**	**434 664**	**–**	**23 582**
	2022	–	–	–	–	–	–	–	–
First Capital Bank Zambia	**2023**	**–**	**1 658 813**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	–	–	–	–	–	–	–	–
First Capital Bank Zimbabwe	**2023**	**–**	**423 245**	**–**	**–**	**–**	**913 616**	**–**	**–**
	2022	2 815 194	–	–	–	–	–	–	–
Management	**2023**	**–**	**361 246**	**–**	**–**	**–**	**25 136**	**–**	**–**
	2022	–	449 956	–	–	–	23 981	–	–
Directors	**2023**	**–**	**82 111**	**–**	**–**	**–**	**121 579**	**–**	**–**
	2022	–	66 887	–	–	–	60 892	–	–
Director related entity's	**2023**	**–**	**3 106 678**	**–**	**–**	**–**	**638 182**	**–**	**–**
	2022	–	1 237 730	–	–	–	245 958	–	–

In the current year, the presentation for transactions with related parties has been modified to enhance transparency and clarity in our financial statements. This change segregates related party transactions, aiming to distinctly present their impact on both the profit or loss and the statement of financial position.

In prior year, management fees were disclosed net of taxes borne by the Bank. Presentation has also been changed to align with statement of profit or loss and this was also applied to comparative figures.

In prior year, income and expenses from foreign currency swap instruments from related party transactions were erroneously disclosed as interest income and interest expense respectively. The error has been corrected in the current year with prior year comparatives restated to net gains on swaps.

39. Related party transactions (continued)

Related party balances as at the reporting date

Amounts in Pula		Cash and cash equivalents	Loans and advances	Deposits	Net foreign currency swap liability	Investment securities	Preference shares	Balances due to other banks	Balances due from related party	Balances due to related party	Bank guarantees & letters of credit
Group											
FMBcapital Holdings Plc	**2023**	**–**	**–**	**61 693 059**	**–**	**–**	**26 132 000**	**–**	**–**	**2 003 382**	**–**
	2022	–	–	6 325 403	–	–	26 132 000	–	–	1 532 168	–
First Capital Shared Services Limited	**2023**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**603 874**	**–**
	2022	–	–	–	–	–	–	–	–	512 156	–
First Capital Bank (Malawi) Plc	**2023**	**48 321**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022		–	–	–	–	–	–	–	96 432	–
First Capital Bank Mozambique	**2023**	**67 173 070**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**123 911 738**
	2022	–	–	–	–	–	–	–	–	–	–
First Capital Bank Zambia	**2023**	**5 377**	**–**	**–**	**–**	**135 338 471**	**–**	**–**	**33 516**	**–**	**–**
	2022	–	–	–	–	–	–	–	–	90 151	–
First Capital Bank Zimbabwe	**2023**	**–**	**33 623 003**	**2 028 066**	**–**	**–**	**–**	**40 229 517**	**123 652**	**–**	**–**
	2022	–	–	233 334	–	–	–	–	–	–	–
Management	**2023**	**–**	**7 686 390**	**4 284 916**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	–	11 382 918	3 681 849	–	–	–	–	–	–	–
Directors	**2023**	**–**	**947 873**	**46 838 660**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2022	–	1 286 440	14 520 164	–	–	–	–	–	–	–
Director related entity's	**2023**		**43 012 624**	**20 966 300**	**–**	**–**	**–**	**–**	**–**	**–**	**4 600 000**
	2022		19 994 778	9 525 800	–	–	–	–	–	–	–

40. Contingencies and commitments

	Group and Company	
Amounts in Pula	**2023**	2022
Bank guarantees	**446 216 327**	295 961 062
Loan commitments	**76 922 103**	123 867 871
Legal claims	**–**	200 000
Capital commitments	**32 379 266**	24 939 301
Letters of credit	**70 475 871**	–
	625 993 567	444 968 234

Contingencies in respect of bank guarantees issued will only crystallise into a liability in the event of default by the relevant counterparty. Loan commitments represent approved facilities with signed offer letters but not yet disbursed at year end.

41. Investment in subsidiary company

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

The total investment in the subsidiary company is P1 000 000 (2022: P1 000 000).

42. 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.

	Group and Company	
Exchange rates	**2023**	2022
Pula/GBP	**17.0508**	15.3503
Pula/Rand	**0.7272**	0.7524
Pula/US Dollar	**13.4048**	12.7551
Pula/Euro	**14.8148**	13.6147
Inflation rate	**3.90%**	12.40%

43. Correction of prior year errors

1) The prior year financial statements included errors relating to presentation and disclosure of foreign currency swaps and forward exchange contracts transactions which meet the criteria for derivative assets and liabilities:

a. Foreign currency swaps

These were incorrectly recognised, presented and disclosed as repurchase agreement asset of P113 278 612, with corresponding liability classified under balances due to other banks of P113 042 449. In addition, the amounts were disclosed as measured at amortised cost.

Additionally, the net gains and losses from these financial instruments were incorrectly classified as interest income or interest expense. The error was corrected in the current year through classification to net gains on derivative instruments with comparative amounts restated. An amount of P10 578 463 was recognised as interest income and P3 943 671 as interest expense.

b. Foreign currency forward contracts

These instruments were inaccurately classified as other assets and other liabilities for the value of P31 535 450 and P17 874 053 respectively and disclosed as financial instruments measured at amortised cost. Additionally, the gains and losses relating to the derivative assets or liabilities were incorrectly presented as part of gains on foreign exchange transactions in the statement of profit or loss. The error was corrected in the current year with the comparatives restated accordingly.

Valuation errors in prior years were not material to warrant restatement of retained earnings in the prior periods.

The following is an analysis of the errors' impact on the statement of profit and loss and other comprehensive income.

Amounts in Pula	Group 2022	Company 2022	Adjustment (Group and Company)	Group Restated 2022	Company Restated 2022
Details					
Interest income	530 591 506	530 591 506	(10 578 463)	520 013 043	520 013 043
Interest expense	(180 715 537)	(180 715 537)	3 943 670	(176 771 867)	(176 771 867)
Net interest income	349 875 969	349 875 969	(6 634 793)	343 241 176	343 241 176
Net gain on foreign exchange transactions	46 703 997	46 703 997	(18 011 102)	28 692 895	28 692 895
Net gains on derivative financial instruments	–	–	24 645 895	24 645 895	24 645 895
Non-interest income	78 214 208	72 407 810	6 634 793	84 849 001	79 042 603
Total operating income	428 090 177	422 283 779	–	428 090 177	422 283 779
Total operating expenses	(192 778 979)	(192 906 689)	–	(192 778 979)	(192 906 689)
Profit before impairment losses on financial assets	235 311 198	229 377 090	–	235 311 198	229 377 090
Profit before income tax expense	217 363 479	211 429 371	–	217 363 479	211 429 371
Income tax expense	(48 050 276)	(46 747 974)	–	(48 050 276)	(46 747 974)
Profit for the year	169 313 203	164 681 397	–	169 313 203	164 681 397
Total other comprehensive income for the year	1 926 424	1 926 424	–	1 926 424	1 926 424
Total comprehensive income for the year	171 239 627	166 607 821	–	171 239 627	166 607 821
Basic earnings per share in Pula	1.6627		–	1.6627	

43. Correction of prior year errors (continued)

The following is an analysis of the errors' impact on the statement of financial position.

Amounts in Pula	Group 2022	Company 2022	Adjustment (Group and Company)	Group Restated 2022	Company Restated 2022
ASSETS					
Repurchase agreements	113 278 612	113 278 612	(113 278 612)	–	–
Other assets	62 055 552	61 700 355	(31 535 450)	30 520 102	30 164 905
Derivative financial assets	–	–	31 771 613	31 771 613	31 771 613
Total assets	5 556 277 021	5 556 920 223	(113 042 449)	5 443 234 572	5 443 877 774
LIABILITIES					
Deposits from customers	4 486 475 859	4 495 307 483	–	4 486 475 859	4 495 307 483
Balances due to other banks	240 593 469	240 593 469	(113 042 449)	127 551 020	127 551 020
Other liabilities	87 051 490	86 915 829	(17 874 053)	69 177 437	69 041 776
Derivative financial liabilities	–	–	17 874 053	17 874 053	17 874 053
Total liabilities	5 023 241 736	5 031 047 055	(113 042 449)	4 910 199 287	4 918 004 606
EQUITY					
Total equity	533 035 285	525 873 168	–	533 035 285	525 873 168
Total liabilities and equity	5 556 277 021	5 556 920 223	(113 042 449)	5 443 234 572	5 443 877 774

The following is an analysis of the errors' impact on the statement of cashflows.

Amounts in Pula	Group 2022	Company 2022	Adjustment (Group and Company)	Group Restated 2022	Company Restated 2022
Cash flows from (to) operating activities					
Interest and non-interest income	609 028 452	603 222 054	(6 248 000)	602 780 452	596 974 054
Interest paid	(137 136 388)	(137 136 388)	3 943 671	(133 192 717)	(133192 717)
Cash paid to suppliers and employees	(157 169 851)	(157 978 457)	4 445 438	(152 724 413)	(153 533 019)
Income taxes paid	(36 417 241)	(35 400 000)	–	(36 417 241)	(35 400 000)
	278 304 972	272 707 209	2 141 109	280 446 081	274 848 318
Net movement in loans and advances to customers	(788 941 415)	(788 941 415)	–	(788 941 415)	(788 941 415)
Net movement in deposit balances	730 664 657	739 496 281	–	730 664 657	739 496 281
Net movement in repurchase agreements	575 657 356	575 657 356	(575 657 356)	–	–
Net movement in balances due to other banks	(529 088 994)	(529 088 994)	573 516 247	44 427 253	44 427 253
Net cash generated from operating activities	266 596 576	269 830 437	(14 367 523)	280 964 099	284 197 960
Cash flows from financing activities					
Interest paid on preference shares	–	–	(1 971 878)	(1 971 878)	(1 971 878)
Interest paid on subordinated debt	–	–	(12 395 645)	(12 395 645)	(12 395 645)
Net cash used in financing activities	(84 638 915)	(84 638 915)	(2 141 109)	266 596 576	266 596 576

43. Correction of prior year errors (continued)

The following is an analysis of the error's impact on fair value measurement disclosures included note 4 (c) – Significant accounting policies.

Amounts in Pula	At amortised cost	Total carrying amount	Fair value of financial instruments	Adjustment	Restated at amortised cost	Restated at fair value of financial instruments	Restated total carrying amount	Restated fair value of financial instruments
Group 2022								
Financial assets								
Repurchase agreements	113 278 612	113 278 612	113 278 612	(113 278 612)	–	–	–	–
Other assets	45 470 009	45 470 009	45 470 009	(31 535 450)	13 934 559	–	13 934 559	13 934 559
Derivative financial assets	–	–	–	31 771 613	–	31 771 613	31 771 613	31 771 613
Total financial assets	5 454 638 446	5 454 638 446	5 454 638 446	(113 042 449)	5 309 824 384	31 771 613	5 341 595 997	5 341 595 997
Financial liabilities								
Balances due to other banks	240 593 469	240 593 469	240 593 469	(113 042 449)	127 551 020	–	127 551 020	127 551 020
Other liabilities	57 870 033	57 870 033	57 870 033	(17 874 053)	39 995 980	–	39 995 980	39 995 980
Derivative financial liabilities	–	–	–	17 874 053	–	17 874 053	17 874 053	17 874 053
Total financial liabilities	4 737 047 126	4 737 047 126	4 737 047 126	(113 042 449)	4 846 724 093	17 874 053	4 864 598 146	4 864 598 146
Company 2022								
Financial assets								
Repurchase agreements	113 278 612	113 278 612	113 278 612	(113 278 612)	–	–	–	–
Other assets	45 121 978	45 121 978	45 121 978	(31 535 450)	13 586 528	–	13 586 528	13 586 528
Derivative financial assets	–	–	–	31 771 613	–	31 771 613	31 771 613	31 771 613
Total financial assets	5 454 290 415	5 454 290 415	5 454 290 415	(113 042 449)	5 309 476 353	31 771 613	5 341 247 966	5 341 247 966
Financial liabilities								
Balances due to other banks	240 593 469	240 593 469	240 593 469	(113 042 449)	127 551 020	–	127 551 020	127 551 020
Other liabilities	57 815 105	57 815 105	57 870 033	(17 874 053)	39 941 052	–	39 941 052	39 941 052
Derivative financial liabilities	–	–	–	17 874 053	–	17 874 053	17 874 053	17 874 053
Total financial liabilities	4 986 417 291	4 986 417 291	4 986 417 291	(113 042 449)	4 855 500 789	17 874 053	4 873 374 842	4 873 374 842

43. Correction of prior year errors (continued)

2) As noted on page 46, the order of liquidity of assets presented in the statements of financial position was changed from the order presented in prior year to align with the correct order of liquidity. The table below indicates the order of liquidity which the assets were presented in the current and prior years:

Order of liquidity as per prior year	Order of liquidity as per current year
Cash and cash equivalents	Cash and cash equivalents
Investment securities	Derivative financial assets
Repurchase agreements	Investment securities
Investment in subsidiary company	Taxation refundable
Loans and advances to customers	Other assets
Other assets	Deferred tax assets
Property, equipment, and intangible assets	Right-of-use assets
Right-of-use assets	Loans and advances to customers
Taxation refundable	Investment in subsidiary company
Deferred tax assets	Property, equipment, and intangible assets

44. Events after the reporting date

On 25 March 2024, the Board approved an ordinary dividend of 88.38 thebe per share amounting to P90 000 000 for the financial year ending 31 December 2023 (2022: P60 000 000) subject to regulatory approval.

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.

Other Information

Interactive content

Abbreviations and acronyms

First Capital Bank/ Company/the Bank	First Capital Bank Limited
FCSSL	First Capital Shared Services Limited
FMBCH Group	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
AML/CFT/CFP	Anti-money laundering, combatting financial terrorism, and combatting of financial proliferation
BTTA	Botswana Table Tennis Association
BUAN	Botswana University of Agriculture and Natural Resources
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CI	Cyclicality Index
COVID	Corona Virus Disease
CSR	Corporate Social Responsibility
EAD	Exposure at default
ECL	Expected Credit Losses
EPS	Earnings Per Share
ESG	Environmental, social and governance
ERMF	Enterprise-Wide Risk Management Framework
FATF	Financial Action Task Force
FVTPL	Fair Value through Profit or Loss
FVOCI	Fair Value through Other Comprehensive Income
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal Rating Based
<IR> Framework	Integrated Reporting Framework
IT	Information Technology
KYC	Know-Your-Customer
LAR	Liquid Asset Ratio
LGD	Loss given default
MPM	Management-Defined Performance Measures
MOPR	Monetary Policy Rate
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay as you earn
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
SWIFT	Society for Worldwide Interbank Financial Telecommunication
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) 390 7801
customerhelpdesk@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

Ernst & Young
Plot 22, Khama Crescent
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

Belief comes first.

www.firstcapitalbank.co.bw