



**BBS Bank Limited
Basel Pillar III
Public Disclosures Report
For the Period Ended 30 June 2023**





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1. Introduction

1.1. Brief Profile of The Company

BBS Bank Limited domiciled in Botswana was first established as a building society under the Building Societies Act first as United Building Society in June 1971 and later Botswana Building Society in December 1976 primarily to be involved in property finance and the provision of services in connection therewith. Its mandate was the provision of affordable property finance and attractive investment returns through the efficient utilisation of resources in the spirit of teamwork for the benefit of all stakeholders.

On 26 April 2018 Botswana Building Society was converted into a company limited by shares under the name BBS Limited. The company applied for a banking license in terms of Section 6 of the Banking Act. Consequently, a commercial banking licence was granted by the Bank of Botswana (BoB) effective 06 October 2022 making the Company the first bank in Botswana to be majority owned and controlled by citizens of Botswana. BBS Bank Limited (BBSBL or “the bank”) is a banking business regulated by the Bank of Botswana (BoB) under the authority of the Banking Act 1995.

This Pillar 3 document is available on the Bank’s corporate website: www.bbs.co.bw

1.2. Basel II Pillar 3 Objectives

The Bank’s Pillar 3 disclosures are made in accordance with the requirements of the Revised International Convergence of Capital Measurement and Capital Standards for Botswana directive which is based on Basel II guidelines and became effective on 1st January 2016 read together with the Basel Committee on Banking Supervision’s revised Pillar 3 disclosure requirements issued on 28 January 2015.

The information disclosed by the bank is consistent with that available to Senior Management and the Board of Directors (the Board) in their assessment and management of the risks of the bank. By disclosing this information, the bank aims to meet the following goals and objectives:

- Inform the market regularly about the bank’s exposure to all risk areas;
- Provide a consistent and understandable disclosure of information that will enhance decision-making and comparability;
- Provide a fair presentation of the bank’s financial position, its capital adequacy position, financial performance, business activities, risk profile and risk mitigation practices; and
- Provide reliable, relevant, transparent and quality information in a timely manner.

1.3. Pillar 3 Disclosure Policy

The bank’s Pillar 3 disclosure policy strikes an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information where the disclosure of information could make the bank’s investment in products or systems less valuable and therefore undermine its competitive position or which



may be contrary to the provisions of any agreement. The bank further assesses whether the information disclosed adequately reflects its financial position and reasonably reflects its position in the banking environment in Botswana.

The Board will review the bank's disclosure policy every three years to assess whether the Pillar 3 disclosures still comply with the BoB guidelines and whether any additional disclosures should be made in line with international best practice. During such reviews it will be determined whether the disclosures meet industry standards.

In order for the bank to maintain a high level of transparency between itself and the market, it has adopted the following approach towards determining the materiality nature and extent of the information that will be disclosed to the public:

- Information is considered to be material if its omission or misstatement could change or influence a user relying on that information to take banking economic or investment decisions. Materiality is determined in accordance with the International Financial Reporting Standards (IFRS) and accounting concepts;
- The nature and extent of the information will be in compliance with IFRS;
- The nature and extent of the information disclosed will be in compliance with the minimum requirements as set out in the BoB Pillar 3 guidelines;
- The information will be consistent with the bank's audited financial statements and subject to internal control and verification; and
- The information shall be consistent with what is available to the directors and senior management to enable them to assess and manage the bank's risk exposures.

1.4. Scope of Application

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information of the bank and BBS Insurance Agency Limited; a wholly owned subsidiary of the bank which represents an insurance company in selling and servicing policies and receives a commission for this service. As such, the bank establishes relevant reporting for regulatory purposes as per the requirements of the Banking Act (CAP:46:04) and Insurance Industry Act of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). During the financial year, the entity did not experience any restrictions or other major impediments on the transfer of funds or regulatory capital.



2. Risk Exposures and Assessment

The Board is satisfied that the risk management system and process for identifying, evaluating, and managing significant risks is effective, and operated throughout the period of this report, providing reasonable assurance. The Board is further satisfied that the processes will identify and enable it to take adequate action against any material undue, unexpected, or unusual risks. In the period under review, no such risks were identified.

2.1 Enterprise-wide Risk Management Framework

The bank has adopted an Enterprise-wide approach to risk management. The ERM approach can be defined as a process that enables organisations to effectively deal with varied types of risks and opportunities, thus increasing stakeholder value. In terms of the ERM framework, risks identified are categorised by sources to facilitate the determination of root cause and subsequently to assign responsibility for responses.

The Board approves the overall business strategy, which includes the overall risk policy and management of procedures.

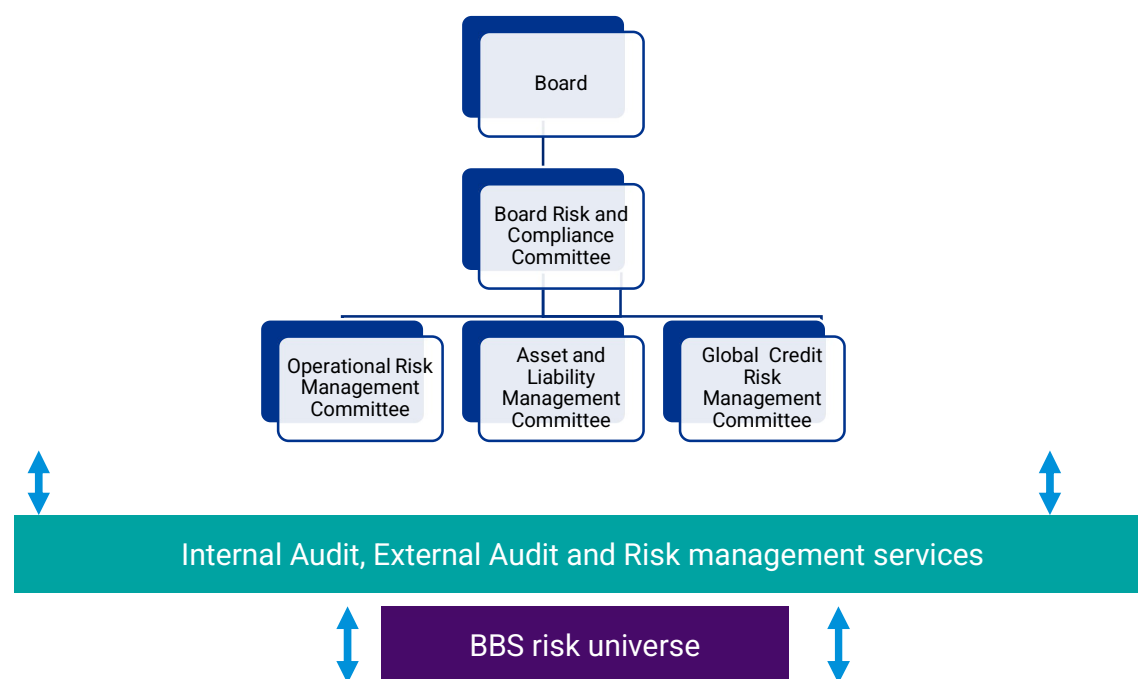




Table 1 – BBSBL Risk Universe and Assigned Risk Owners

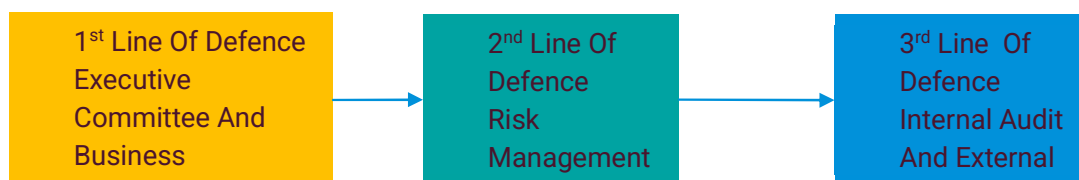
The following chart represents BBSBL risk universe:

Level 1 Risk	Assigned Risk Owner	Board Committee Oversight	Management Committee Oversight
Business & Strategic Risk	Head of Projects & Strategy	Risk and Compliance Committee	Operational Risk Management Committee
Brand & Reputational Risk	Head of Business Relations and Marketing	Risk and Compliance Committee	Operational Risk Management Committee
Credit Risk	Head of Credit	Risk and Compliance Committee	Global Credit Risk Management Committee
Market Risk	Head of Risk	Risk and Compliance Committee	Asset and Liability Management Committee
Liquidity & Funding Risk	Head of Treasury	Risk and Compliance Committee	Asset and Liability Management Committee
Legal Risk	Head of Legal and Compliance	Risk and Compliance Committee	Operational Risk Management Committee
Compliance Risk	Head of Legal and Compliance	Risk and Compliance Committee	Operational Risk Management Committee
Operational Risk	Head of Risk	Risk and Compliance Committee	Operational Risk Management Committee
Capital Risk	Head of Finance	Risk and Compliance Committee	Asset and Liability Management Committee
Financial Reporting & Taxation Risk	Head of Finance	Risk and Compliance Committee	Operational Risk Management Committee
Information Technology Risk	Head of Information Technology	Risk and Compliance Committee	Operational Risk Management Committee
People Risk	Human Resources Manager	Human Resources and Remuneration Committee	Operational Risk Management Committee
Projects Risk	Head of Projects & Strategy	Risk and Compliance Committee	Operational Risk Management Committee
Corporate Sustainability Risk	Head of Projects & Strategy	Risk and Compliance Committee	Operational Risk Management Committee



2.1.1 The 3 lines of defence in terms of the ERM framework and risk culture

The level of BBSBL profitability is directly derived from how successfully BBSBL manages and prices for risk. Risk management is therefore at the core of banking and risk awareness has been embedded in the whole organisation. Risk governance is designed according to the three 'lines of defence' as per best banking practise.



1. The first line is the 'business'. This refers to both customer facing staff as well as staff in back offices and operational departments. All departments are directly responsible to identify and manage all risks that will or can materialise in the course of doing business. This includes the mentioning of risk management in each policy and procedure and making sure procedures are designed to include checks and balances through internal control activities and the separation of duties as much as possible. It also includes performing risk self-assessments, keeping track of risk events, monitoring and reporting. Departmental heads also need to ensure risk related Key Performance Indicators (KPIs) are embedded in staff job descriptions and performance management documents.
2. The second line of defence are the various departments in the Risk Function. These departments play a supporting and controlling role for the benefit of the first line of defence, ensuring necessary risk activities are executed with the necessary detail and quality. The second line of defence is considered 'part of management'; and
3. The third line of defence is the Internal Audit and External Audit functions. The Audit Department is not considered as 'part of management' and works independently, objectively and reports to the Board Audit Committee.

A strong risk culture is critical to BBSBL's success and underpins both the business strategy and risk appetite of BBSBL. BBSBL's culture is to actively take risks that are adequately rewarded and that support its objectives and vision. Shareholder value is added by creating profits measured after charging for the cost of risk or by activities that are of strategic importance and related to a wider shareholder value growth opportunity.



2.2 Risk Appetite

The Board and management use a balanced approach in determining acceptable levels of risk to undertake. BBSBL will only tolerate those risks which permit it to:

- Achieve its stated strategic business objectives
- Provide a return that meets or exceeds expectations
- Comply with all applicable laws and regulations
- Conduct its business in a safe and sound manner.

The Board approves and the Executive Committee sets general risk appetite levels annually through several means.

The overall internal and external risk environments are considered in conjunction with the strategic planning process.

Key strategic business objectives and their financial and non-financial risk appetite levels are set annually and expressed in the strategic plan and policies. Within the scope of their authority and guidelines established in business plans, policies, and procedures, business unit managers make decisions regarding acceptable levels of risk. Managers are also responsible for implementing risk mitigation strategies of retention, control, avoidance and transfer.

For monitoring and reporting purposes, the Executive Committee and the Board use a set of Key Risk Indicators (KRIs) of inherent risk across the predefined risk categories, assessing if they are within tolerances, and if the trend is increasing, stable, or decreasing. These are tracked in a common reporting format. High risk indicators and action plans are tracked by the various committees with update reporting to the Board at least quarterly or as requested.

BBSBL Risk Appetite Statement

BBSBL considers both qualitative and quantitative measures as part of its risk appetite and focuses on capital, liquidity, profitability, and growth as primary measures. Financial operations are managed to obtain a reasonable risk/return relationship within the management of the various risks to which BBSBL is exposed, including strategy risk, credit risk, liquidity risk and reputational risk. BBSBL's risk appetite is linked to its short and longer-term strategy focussing on higher return on equity, growth in profitability, year on year growth and revenue diversification. BBSBL's risk appetite also specifies, as part of risk appetite, risk tolerances around its risk appetite, such as acceptable limits of credit losses. The risk appetite is reviewed annually and is adjusted to take cognisance of target values and market prospects.



3. Regulatory Capital and Capital Adequacy

3.1. Capital Structure

Bank of Botswana sets and monitors the capital requirements for BBSBL. It requires BBSBL to maintain a minimum of 12.5% of risk weighted assets covering operational, market and credit risks.

Regulatory capital is divided into three (3) main categories namely Common Equity Tier 1 ("CET-1"), Additional Tier 1 and Tier 2 capital as follows:

- **CET-1** capital comprises shareholders' equity and related eligible non-controlling interest after giving effect to deductions for disallowed items (e.g., goodwill and intangible assets) and other adjustments. CET-1 Capital must be at least 4.5 percent of risk-weighted assets at all times;
- **Additional Tier 1** capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into CET-1 capital at the point of non-viability of the firm. The Tier 1 capital ratio is calculated as the adjusted Tier 1 capital divided by the total risk-weighted assets of the Company. The Tier 1 capital ratio must be at least 7.5% of risk-weighted assets at all times; and
- **Tier 2** capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments which no longer qualify as tier 2 capital and are subject to general provisioning. Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 12.5% of risk-weighted assets at all times.



Table 2 - BBSBL Capital Structure as at 30 June 2023

Common Equity Tier 1 (CET1) Capital	
Item	Amount (P'000)
Common shares	487,453
Share premium resulting from the issue of common shares	-
Retained earnings	(13,468)
Accumulated other Comprehensive income and other disclosed reserves	-
Common shares issued by consolidated subsidiaries and held by third parties (Minority interest)	-
Common Equity Tier I capital before regulatory adjustments	473,985
Common Equity Tier I capital: regulatory adjustments	-
Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
Total regulatory adjustments to Common equity Tier I	(20,432)
Common Equity Tier I capital (CET1 CAPITAL)	453,553
Additional Tier I capital: instruments	-
Directly issued qualifying Additional Tier I instruments plus related stock surplus	-
Additional Tier I capital before regulatory adjustments	-
Additional Tier I capital: regulatory adjustments	-
Additional Tier I capital (AT1)	-
Total Tier I capital (T1 = CET1 CAPITAL + AT1)	453,553
Tier 2 Capital	
Instruments issued by BBSL that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital)	-
Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-
Unpublished Current Year's Profits	(29,781)
Tier 2 capital instruments (subject to gradual phase-out treatment)	-
Instruments issued by consolidated subsidiaries of BBSL and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital (minority interests)	-
General provisions/general loan-loss reserves eligible for inclusion in Tier 2, limited to a maximum of 1.25 percentage points of credit risk-weighted risk assets calculated under the standardised approach	922
Regulatory adjustments applied in the calculation of Tier 2 Capital	-
Total Tier 2 Capital	(28,859)
Total Unimpaired Capital	424,694



3.2. Capital Adequacy

3.2.1 Qualitative Disclosures

Capital Management Approach

The bank implemented a centralised 3-year forward-looking capital management plan in line with the Board-approved Capital Management Framework. The purpose of the Capital Management Framework is to provide a clearly defined documented and mandatory approach and principles in the capital planning process. Effective capital management ensures that BBSBL:

- Meets individual capital ratios required by the Bank of Botswana;
- Meets the Board approved target capital ratios;
- Generates sufficient capital to support overall business strategy;
- Makes capital allocation decisions as part of the strategic and financial planning review taking into consideration the return on regulatory capital; and
- Achieves a return above the cost of equity

In terms of the Capital Management Framework the Board and Senior Management assess the appropriateness of the Capital Plan which is presented to the various governance forums (ALCO on a monthly basis and Risk Committee on a quarterly basis) in light of any change in the bank's risk profile and other relevant factors.

Stress and Scenario Testing

BBSBL has a stress and scenario testing framework which is used inter alia to stress its base case projections in order to assess the adequacy of the bank's capital levels capital buffers and target ratios. The framework is an integral part of the Company's Internal Capital Adequacy Assessment Process (ICAAP) under Basel II strategy and business plans. The bank's stress and scenario testing recognises and estimates the potential volatility of the capital requirements and base case (expected) three-year business plan projections including the key assumptions and sensitivities contained therein which themselves are subject to fluctuation.

Comprehensive stress and scenario testing is performed and reported annually as part of the ICAAP process and during the strategic three-year planning process and more regularly if called upon. The bank's approach to comprehensively cover stress and scenario testing for regulatory capital comprises several levels including macroeconomic stress testing reverse stress testing and benchmarking to the latest and previously relevant international stress testing exercises.

The impact of the stress scenarios on the bank's expected credit losses, earnings, liquidity position, Capital Adequacy Ratios (CARs) and capital buffers is considered. The macroeconomic stress testing scenarios include a 1-in-25-year stress event as required by Basel II and other severe liquidity risk and market risk events.



3.2.2 Quantitative Disclosures

Table 3 – Expanded Regulatory Balance Sheet

	Balance sheet	Under regulatory scope of consolidation
	As at June 2023	As at June 2023
	P'000	P'000
Assets		
Cash and balances at central banks	177,063	177,063
Items in the course of collection from other banks	-	-
Trading portfolio assets	-	-
Financial assets designated at fair value	-	-
Derivative financial instruments	-	-
Loans and advances to banks (Investments with banks)	396,953	396,953
Loans and advances to customers	3,293,356	3,293,356
Reverse repurchase agreements and other similar secured lending	-	-
Available for sale financial investments	-	-
Current and deferred tax assets	2,609	2,609
Prepayments accrued income and other assets (includes PIP and Right of use asset)	58,466	58,466



Investments in associates and joint ventures	-	-
Goodwill and intangible assets	-	-
of which goodwill	-	-
of which other intangibles (excluding MSRs)	20,432	20,432
of which MSRs	-	-
Property plant and equipment	108,964	108,964
Total assets	4,057,843	4,057,843
Liabilities		
Deposits from banks	-	-
Items in the course of collection due to other banks	-	-
Customer accounts	3,024,028	3,024,028
Repurchase agreements and other similar secured borrowings	429,532	429,532
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivative financial instruments	-	-
Debt securities in issue (Debentures)	102,216	102,216
Accruals deferred income and other liabilities	54,436	54,436
Current and deferred tax liabilities	3,428	3,428
Of which DTLs related to goodwill	-	-
Of which DTLs related to intangible assets (excluding MSRs)	-	-



Of which DTLs related to MSRs	-	-
Subordinated liabilities	-	-
Provisions	-	-
Retirement benefit liabilities	-	-
Total liabilities	3,613,640	3,613,640
Shareholders' Equity		
Paid-in share capital	-	-
of which amount eligible for CET1 CAPITAL (Ordinary shares/ Indefinite shares)	487,453	487,453
of which amount eligible for AT1	-	-
Retained earnings	(43,250)	(43,250)
Accumulated other comprehensive income	-	-
Total shareholders' equity	443,203	443,203
Total Equity and Liabilities	4,057,843	4,057,843

Table 4 – Capital Requirements for The Various Basel II Risk Categories

Risk Category	Approach	Risk Weighted Assets (RWAs) (P000)	Minimum Capital Requirement (P000) – at 12.5%
Credit Risk	Simple	1,783,200	222,900
Market Risk	Standardised	-	-
Operational Risk	Basic Indicator Approach (BIA)	119,578	14,947
Total		1,902,778	237,847

Note that BBSBL currently is not exposed to any market risk arising from the trading book.



Table 5 – Capital Adequacy Ratios as at 30 June 2023

Capital	Actual Ratio	Regulatory Minimum (%)
Common Tier 1 capital (CET1)	25.62%	4.5%
Tier 1 Capital	23.84%	7.5%
Total Unimpaired Capital	22.32%	12.50%

Table 6 – Capital Requirements for Operational Risk

Year	Gross Income (P000)
1	119,000
2	109,195
3	128,753
Aggregate Gross Income	356,948
Basel II Alpha Factor for BIA (α)	0.15
Aggregate Gross Income x α	53,542
Number of years with positive Gross Income	3
Operational Risk Capital Charge	17,847
Risk Weight Factor	6.7
Operational RWAs	119,575

Table 7 – Capital Requirements for Credit Risk

Description	Risk Weighted Assets (RWAs) (P000)	Minimum Capital Requirement (P000) – at 12.5%
On-balance sheet exposures		
Cash	1,201	150
Other cash balances - claims from banks	20,054	2,507
Fixed deposits with banks	79,391	9,924
Properties in possession	32,747	4,093
Short-term loans and advances to customers	33,447	4,181



Residential loans secured	929,277	116,160
Residential loans unsecured	58,575	7,322
Past due for more than 90 days & specific provision is less than 20% of loan	149,874	18,734
Past due for more than 90 days & specific provision is more than 20% of loan	45,520	5,690
Commercial loans secured	236,284	29,535
Past due exposure where specific provision is less than 20% of the loan	17,440	2,180
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan	5,141	643
Past due exposure where specific provision is equal to 50% or more of the loan	122	15
Other assets	18,687	2,336
Intangible assets	20,432	2,554
Right-of-use assets	9,641	1,205
Property Plant and Equipment	108,964	13,621
Total On-Balance sheet exposures	1,766,797	220,850
Off-balance sheet exposures		
Loan commitments:		
Corporate loans	1,030	129
Retail loans	15,373	1,922
Total Off-Balance sheet exposures	16,404	2,050
Grand total	1,783,200	222,900