

BBS Limited
Basel II Pillar III
Public Disclosures Report
As at 31 December 2021



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1. Introduction

1.1. Brief profile of the Company

BBS Limited (BBSL) domiciled in Botswana was first established as a building society under the Building Societies Act during December 1976 primarily to be involved in property finance and the provision of services in connection therewith. Its philosophy 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. During the year under review, the company applied for a banking license in terms of section 6 of the Banking Act. As at the date of this report, the company's application had been approved with conditions to be met before a commercial banking license can be granted. If the licence is granted the Company will be the first bank in Botswana to be majority owned and controlled by citizens of Botswana. Even though BBSL has converted legally from a building society into a company until it is issued with a commercial banking license by the Bank of Botswana (BOB) it will continue to conduct the business of a building society.

1.2. Basel II Pillar 3 objectives

BBSL Pillar 3 disclosures are made in accordance with the requirements of the revised capital directive which is based on Basel II and became effective on 1 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 Company 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 Company. By disclosing this information BBSL aims to meet the following goals and objectives:

- inform the market regularly about the Company'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 Company's financial position its capital adequacy position financial performance business activities risk profile and risk mitigation practices; and
- provide reliable relevant and timely information.

1.3. Pillar 3 disclosure policy

The Company'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 Company'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 Company 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 Company's disclosure policy every three years to assess whether the Pillar 3 disclosures still comply 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.

For the Company 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 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 Company'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 Company's risk exposures.

1.4. Scope of application

The Pillar 3 disclosures are made for the Company. As at 31 December 2021 the Company did not have subsidiaries or major operating segments.

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.

Brand Risk Management is defined as “the understanding identification and subsequent management of things that could impact the BBSL brand negatively (i.e. reduce brand equity)”. Brand risk management is identified measured and managed within the enterprise risk management framework of an organisation. Reputational Risk is defined as “the potential that negative publicity regarding BBSL’s business practices whether true or not will cause a decline in the customer base costly litigation or revenue reductions.

2.1 Enterprise-wide Risk Management Framework

BBSL 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 Company has adopted an Enterprise-wide approach to risk management. The Enterprise-wide Risk Management (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 the Company has identified material risks (called Level 1 risks) to which it is exposed and assigned risk ownership of these risks to various members of the Senior Management team. 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.

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. Risk governance is designed according to the three ‘lines of defence’ as per best banking practise.

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

The level of BBSL profitability is directly derived from how successfully BBSL 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 while 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 Finance and Audit Committee.

The basis of the BBSL's Enterprise Risk Management Process is a continuous cycle anchored in the 5 steps of identify analyze respond monitor and report as shown below. Within each step of the process regular and meaningful communication is essential to improve the likelihood of success. By viewing this cycle as a continual loop managers are reminded of the need for thoughtful and regular feedback as improvement is critical to successful risk management.

Step 1 – Identify risks

For each business objective it is necessary to identify the key risks that might impede the achievement of the respective business objectives. Risk identification should be performed as part of all major decision-making processes and is the responsibility of all risk owners. Identified risks should be documented in the Risk Control Self-Assessment immediately to be assessed in step 2.

Step 2 – Analyze risks

Risks are assessed or analyses in terms of likelihood of occurrence and the impact when the risk occurs. The assessment is done on a likelihood of occurrence rating multiplied by the impact rating matrix before taking into consideration the impact of controls and after considering the effect of mitigating controls.

Step 3 – Respond to the risks

Risks can be dealt with in various ways. The risk response options encompass all possible management response to risk whether viewed as opportunities uncertainties or hazards. The risk response options and examples of activities under each option are outlined below:

- Mitigate
- Avoid
- Transfer
- Accept
- Exploit

Step 4 – Monitor risks

The monitoring and review of the risk profile and the risk response plans is a continuous process. The purpose of the review is to:

- provide assurance that risks are being managed as expected;

- assess whether the risk response plans remain relevant; and
- ensure that the risk profile anticipates and reflects changed circumstances and new exposures.

Risk monitoring consists of a combination of regular communication periodic reviews or audits and evaluation by independent executives at appropriate levels at BBSL. Assurance techniques include:

- periodic or random testing of controls risks and control environment
- quality assurance reviews
- post-implementation reviews
- performance appraisals

Risk response should be measured in terms of efficiency and effectiveness. Efficiency measures the cost of implementing risk management responses in terms of time money and resources whereas effectiveness measures the relative degree to which the responses reduce the impact or likelihood of the risk occurring. To maximize efficiency and effectiveness of risk responses monitoring and reporting should be integrated with existing business processes and reporting as far as possible.

Step 5 – Report on the risks

While everyone in BBSL is responsible for enterprise risk management in their respective areas some staff have specific responsibilities. The policy and design for enterprise risk management is driven by the Board and managed by the enterprise risk management team. The reporting structure ensures that risk response gaps are addressed and the risk responses are operating effectively under changing conditions. Enterprise risk management activities should be monitored and reported upwards throughout BBSL.

Governance

Role of the Internal Audit Department

The role of Internal Audit is to provide assurance to the Board (via the Board Finance and Audit Committee) covering the effectiveness of controls in mitigating current and evolving high risks It is tasked with the responsibility of monitoring compliance with the Company's risk management policies and procedures.

Role of the Board

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board is responsible for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company.

The Board has the following sub committees:

- Finance and Audit Committee
- Human Resources and Remuneration Committee
- Tender Committee
- Nominations and Governance committee

The above Board Sub-committees and Board convene on a quarterly basis. The Company's Board and its committees are comprised of six Non-Executive Directors and one Executive Director. Management reports risk management matters to the Board Finance and Audit committee. The Company's enterprise –wide risk framework is aligned to the directive on Revised International Convergence of Capital Standards for Botswana (Basel II) as issued by Bank of Botswana and is premised on three pillars:

- Pillar I: Minimum Capital Requirements
- Pillar II: Supervisory Review Process
- Pillar III: Market Disclosure

Basel II ensures that banks hold sufficient capital in line with their risk management process and risk exposures. BBSL remains well capitalised and its capital is reflective of the underlying economic risks it is exposed to as well as operating well within the set Risk Appetite.

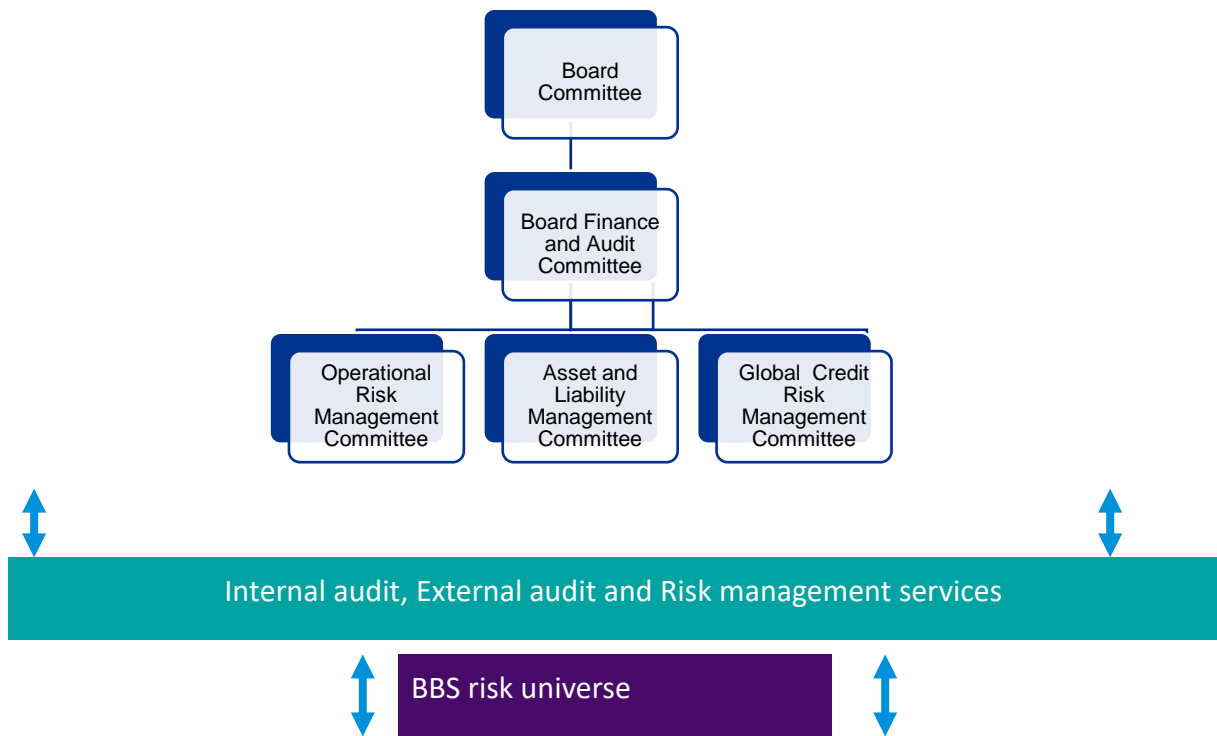


Table 1 – BBSL Risk Universe and assigned Risk Owners

The following chart represents BBSL risk universe:

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

2.2 Risk Appetite

The Board and Management use a balanced approach in determining acceptable levels of risk to undertake. BBSL 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.

BBSL Risk Appetite Statement

BBSL 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 BBSL is exposed including strategy risk, credit risk, liquidity risk and reputational risk. BBSL's risk appetite is linked to its short and longer-term strategy focusing on higher return on equity growth, profitability, year on year growth and revenue diversification. BBSL'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 the Company. It requires the Company to maintain a minimum of 12.5% of risk weighted assets covering operational market and credit risks.

Regulatory capital is divided into 3 main categories namely Common Equity Tier 1 ("CET1") Additional Tier 1 and Tier 2 capital as follows:

- CET1 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. CET1 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 common equity tier 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 grandfathering provisions. 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 – BBSL Capital Structure as at 31 December 2021

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	(81,513)
Accumulated other Comprehensive income and other disclosed reserves	113,437
Common shares issued by consolidated subsidiaries and held by third parties (Minority interest)	-
Common Equity Tier I capital before regulatory adjustments	519,377
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	16,150
Common Equity Tier I capital (CET1 CAPITAL)	503,227
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 1 capital (T1 = CET1 CAPITAL + AT1)	503,227
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	(25,347)
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	692
Regulatory adjustments applied in the calculation of Tier 2 Capital	-
Total Tier 2 Capital	(24,655)
Total Unimpaired Capital	478,572

3.2 Capital Adequacy

3.2.1 Qualitative Disclosures

Capital Management Approach

The Company 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 BBSL:

- 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 the Finance and Audit Committee on a quarterly basis) considering any change in the Company's risk profile and other relevant factors.

Stress and Scenario Testing

BBSL has a stress and scenario testing framework which is used inter alia to stress its base case projections to assess the adequacy of the Company'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 Company'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 Company'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 Company's impairments, 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	Balance sheet	Under regulatory scope of consolidation
	As at December 2021	As at December 2021	As at December 2020	As at December 2020
	P'000	P'000	P'000	P'000
Assets				
Cash and balances at central banks	133,380	133,380	73,087	73,087
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 (<i>Investments with banks</i>)	311,520	311,520	358,561	358,561
Loans and advances to customers	3,179,585	3,179,585	3,461,088	3,461,088
Reverse repurchase agreements and other similar secured lending			-	-
Available for sale financial investments			-	-

Current and deferred tax assets			-	-
Prepayments accrued income and other assets (includes PIP and Right of use asset)	81,124	81,124	76,591	76,591
Investments in associates and joint ventures			-	-
Goodwill and intangible assets			-	-
of which goodwill			-	-
of which other intangibles (excluding MSRs)	16,150	16,150	13,963	13,963
of which MSRs			-	-
Property plant and equipment	106,953	106,953	105,356	105,356
Total assets	3,828,712	3,828,712	4,088,646	4,088,646
Liabilities				
Deposits from banks			-	-
Items in the course of collection due to other banks			-	-
Customer accounts	2,511,064	2,511,064	2,494,450	2,494,450
Repurchase agreements and other similar secured borrowings	667,893	667,893	914,682	914,682
Trading portfolio liabilities			-	-
Financial liabilities designated at fair value			-	-
Derivative financial instruments			-	-
Debt securities in issue (Debentures)	101,974	101,974	101,974	101,974
Accruals deferred income and other liabilities	52,101	52,101	57,257	57,257
Current and deferred tax liabilities	1,650	1,650	906	906
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	3,334,682	3,334,682	3,569,269	3,569,269
Shareholders' Equity	-		-	
Paid-in share capital				
of which amount eligible for CET1 CAPITAL (Ordinary shares/ Indefinite shares)	487,453	487,453	487,453	487,453
of which amount eligible for AT1			-	-
Retained earnings	(106,860)	(106,860)	(81,513)	(81,513)
Accumulated other comprehensive income	113,437	113,437	113,437	113,437
Total shareholders' equity	494,030	494,030	519,377	519,377
Total Equity and Liabilities	3,828,712	3,828,712	4,088,646	4,088,646

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	1,552,402	194,050
Market Risk	Standardised	-	-
Operational Risk	Basic Indicator Approach (BIA)	127,240	15,905
Total		1,679,643	209,955

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

Table 5 – Capital requirements for Credit Risk

Description	Exposure (P000)	Risk Weight (%)	Risk Weighted Assets (RWAs) (P000)
On-balance sheet exposures			
Cash	5,060	0%	-
Other cash balances - claims from banks	128,320	20%	25,664
Fixed deposits with banks	311,520	20%	62,304
Properties in possession	39,871	100%	39,871
Short-term loans and advances to customers	52,924	0%	144,974
Residential loans secured	2,616,248	35%	915,687
Residential loans unsecured	74,667	75%	56,000
Past due for more than 90 days & specific provision is less than 20% of loan	116,055	100%	116,055
Past due for more than 90 days & specific provision is more than 20% of loan	33,642	50%	16,821
Commercial loans secured	245,235	100%	245,235
Past due exposure where specific provision is less than 20% of the loan	30,456	150%	45,684
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan	9,048	100%	9,048
Past due exposure where specific provision is equal to 50% or more of the loan	1,311	50%	655
Other assets	25,931	100%	25,931
Intangible assets	16,150	100%	16,150
Right-of-use assets	15,319	100%	15,319
Property Plant and Equipment	106,952	100%	106,952
Off-balance sheet exposures			-
Loan commitments:			-
Corporate loans	2,836	20%	567
Retail loans	21,743	20%	4,349
Total	3,853,287		1,552,402

Table 6 – Capital requirements for Operational Risk

Year	Gross Income (P000)
1	133,143
2	132,436
3	114,242
Aggregate Gross Income	379,821
Basel II Alpha Factor for BIA (α)	15%
Aggregate Gross Income x α	56,973
Number of years with positive Gross Income	3
Operational Risk Capital Charge	18,991
Risk Weight Factor	6.7
Operational Risk RWAs	127,240

The Company has adopted the Basic Indicator Approach (BIA) in computing the Operational Risk. The regulatory operational risk capital charge risk is equal to 15% of the average of the previous three years' company's positive annual gross income. The three-year average gross income is calculated on the basis of the last three 12 month's monthly observations at the end of the financial year. Where audited financials are not available submitted returns are used.

Table 7 – Capital Adequacy Ratios as at 31 December 2021

CAR	%	Regulatory Minimum (%)
CET1	30.92%	4,5%
Tier 1	29.96%	7,5%
Total Capital	28.49%	12.50%

The Company was more than adequately capitalised as at 31 December 2021.

4 Credit Risk

4.1 Qualitative Disclosures

Credit Risk Policy

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's loans and advances to customers. The sound practices of the Company set out in its credit risk policy specifically addresses the following areas:

- establishing an appropriate credit risk environment;
- managing the credit activities of the Company with integrity using strictly and exclusively prudential credit criteria;
- maintaining an appropriate credit administration measurement and monitoring process;
- reviewing at least once a year the policy and related techniques procedures and information systems;
- clearly defining the roles and responsibilities of different parties within the Company i.e., the Board Finance and Audit Committee Global Credit Risk Management Committee as well as the related departments; and
- reviewing all significant exposures to credit concentration risk.

These practices are also applied in conjunction with sound practices related to the assessment of asset quality the adequacy of provisions and reserves and the disclosure of credit risk.

Overall, the goal of credit risk management is to maximise the Company's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Such parameters cover not only the total portfolio(s) but also the risks inherent in individual transactions. The Credit policy provides the framework whereby this objective can be achieved.

Loan classification criteria

The creditworthiness of counterparties is reflected in the BBSL Master Rating Scale. The ratings classes within the master-scale are defined by lower and upper bounds of Probabilities of Default (PDs). Where no default risk exists R1 to R4 represents normal healthy exposures while R5 to R9 represents high-risk of defaulted borrowers.

Impairment Policy

With effect from 1 April 2018 BBSL applies International Financial Reporting Standard (IFRS) 9 to calculate expected losses on loans and advances. The Company has developed models to compute loan impairments on this basis. The Company performs an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Company groups its loans into Stage 1 Stage 2 Stage 3 as described below:

Table 8 – Loan classification criteria

IFRS 9 Classification	Age Analysis	Classification Description	Risk Grade
Stage 1	< 30 days	This refers to loans where borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt. These loans have not experienced a Significant Increase in Credit Risk in terms of the IFRS 9 policy.	R1-5
Stage 2	31-90 days	This refers to loans on the Watch List where borrowers are displaying a definable weakness which is likely to jeopardise repayment. The institution is relying heavily on available security. This would include; i) Loans where some loss either of principal or interest (including future interest) is possible after taking account of the market value of security ii) Rescheduled loans- where concessions have been made to a customer on interest or principal such as to render the loan “non-commercial” to the company	R6-7
Stage 3	> 90 days	This refers to loans which have experienced default in terms of the IFRS 9 policy where collection in full is improbable and the BBSL expects to sustain a loss of principal and/or interest taking account of the market value of security.	R8-9

4.2 Quantitative Disclosures

4.2.1 Table 9 - Analysis of credit exposures as at 31 December 2021

Category of Credit Risk	Exposure (P000)
Balances with banks (call and current accounts)	128,320
Investments with banks	311,520
Short-term loans and advances to customers	52,923
Mortgage loans and advances to customers	3,126,662
Staff debtors	14,862
Total	3,634,287

4.2.2 Table 10 - Expected credit loss allowance Mortgage loans and advances to customers – On Balance Sheet

	Stage 1 Performing (P000)	Stage 2 Performing (P000)	Stage 2 Nonperforming (P000)	Stage 3 Nonperforming (P000)	Total (P000)
Assets at amortised cost individually impaired					
Standard	2,471,971	-	4,751	3,925	2,480,647
Special mention/Watch list	209,291	29,965	122,280	15,343	376,879
Substandard	-	-	61,300	25,487	86,787
Doubtful	-	-	-	107,303	107,303
Loss				129,357	129,357
Gross carrying amount	2,681,262	29,965	188,331	281,415	3,180,973
Specific impairment					
ECL impairment allowance	(594)	(98)	(764)	(52,855)	(54,311)
Net loans and advances	2,680,668	29,867	187,567	228,560	3,126,662

4.2.3 Table 11 - Expected credit loss allowance Mortgage loans and advances to customers – Off Balance Sheet

Assets at amortized cost individually impaired	Stage 1 (P000)	Stage 2 (P000)	Stage 3 (P000)	Total (P000)
ECL impairment allowance	5	-	-	5

4.2.4 Table 12 - Expected credit loss allowance on Financial Assets Impairment allowance-excluding interest revenue recognition

	(P000)
Expected credit loss allowance – mortgages	(28 182)
Expected credit loss allowance - mortgages Loan commitments	(3)
Expected credit loss allowance - short loans	(521)
Expected credit loss allowance - staff loans	31
TOTAL	(28 675)

4.2.5 Table 13 - An estimate of the fair value of collateral and other tangible security enhancements held against financial assets

	Loans and advances to customers
Against specific impairment - Property	1,172,971
Against general impairment - Property	5,786,951
Against short-term loans not impaired- cash deposit	247,571
Total	7,207,493

4.2.6 Geographical Distribution

The Company does not engage in cross-border lending. All the credit risk exposures shown above in 4.2.1. are within the country of Botswana.

4.2.7 Residual maturity contractual analysis

The residual maturity contractual analysis below applies to gross mortgage balances and short-term loans which are fully secured by cash.

4.2.8 Table 14 – Residual contractual maturity analysis – LTV Ratio

Residual contractual maturity	Exposure (P000)
Less than 60%	1,324,968
60 - 70%	571,452
70 - 80%	532,329
80 - 90%	642,750
More than 90%	109,474
Total	3,180,973

4.2.9 Table 15 – Loan Commitments

Residual contractual maturity	Exposure (P000)
Less than 60%	8,473
60 - 70%	2,738
70 - 80%	2,861
80 - 90%	10,477
More than 90%	30
Total	24,579

4.2.10 Table 16 - Reconciliation of impairment charge

	Specific Allowance (P000)	Collective Impairments P0	Total Impairments P0
Opening Balance (1 Jan 2021)	(72,780)	(5,868)	(78,648)
Residential and commercial Properties	19,141	5,196	24,337
Closing balance (31 December 2021)	(53,639)	(672)	(54,311)

4.2.11 Credit Risk Mitigation

Credit risk mitigation refers to the actions that can be taken by the Company to manage its exposure to credit risk to align such exposure to its risk appetite. This action can be proactive or reactive and the level of mitigation that an organisation desires may be influenced by external factors such as the economic cycle or internal factors such as a change in risk appetite.

References to credit risk mitigation normally focus on the taking of collateral as well as the management of such collateral. While collateral is an essential component of credit risk mitigation there are several other methods used for mitigating credit risk. The Credit Policy acknowledges the role played by credit risk mitigation in the management of credit risk but emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from its own resources and cash flow. Credit risk mitigation is also achieved by the Company by third party protection such as guarantees risk participations and insurances.

Basel II's simplified standardised approach allows for the use of certain categories of collateral to be used to reduce exposures prior to the risk weighting thereof subject to suitable haircuts being applied to the value of such collateral. For risk mitigation purposes the instruments specified below are regarded as eligible collateral for capital purposes in terms of the comprehensive approach for collateral management as defined in the Basel II requirements:

- Cash including certificates of deposit or comparable instruments issued by the Company on deposit with the Company;
- When cash on deposit, certificates of deposit or comparable instruments issued by the Company are held as collateral at a third-party bank in a non-custodial arrangement the Company may assign the risk weight related to the third party bank to the exposure amount protected by the collateral provided that the cash / instruments are pledged / assigned to the Company the pledge / assignment is unconditional and irrevocable and the Company has applied the relevant haircut rate in respect of currency risk (i.e. the measure used to reduce the value of collateral to ensure that the realizable value taking volatility and adverse price changes into account will cover the credit exposure);
- Credit-linked notes issued by the Company to protect an exposure in the banking book;
- Gold coins;
- Debt securities
- Equities including convertible bonds that are included in a main index;
- Undertakings for collective investments in transferable securities ("UCITS") and mutual funds; and
- Securities issued by the Botswana Government or by the Bank of Botswana provided that the Company's exposure and the securities are denominated in Botswana Pula.

The Company does not use derivative instruments in credit risk mitigation. The Company does not also use on-Balance Sheet and off-Balance Sheet netting in credit risk mitigation.

Collateral valuation and management

The valuation and management of collateral is governed by the Credit Policy. The Company seeks to use collateral where possible to mitigate its risks on financial assets. The collateral comes in various forms such as cash securities, letters of credit/guarantees, real estate receivables inventories other non-financial assets and credit enhancements such as netting

agreements. The fair value of collateral is generally assessed at a minimum at inception and based on the Company's quarterly reporting schedule. Some collateral for example cash or securities relating to margining requirements is valued daily. To the extent possible the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral such as real estate is valued based on data provided by third parties including mortgage brokers housing price indices audited financial statements and other independent sources.

Terms of agreement and legal risk

The terms of agreement regarding collateral will relate to the exposure to ensure sufficient collateralisation. Legal risks are mitigated through sufficient reference to legal procedures in case of default and call-up of relevant collateral.

Administration and resolution of disputes

All collateral agreements and related original documents are kept in a fire resistant safe where documents are lodged and removed under dual control of safe lock combinations and safe keys. Any disputes are referred to the Company's attorneys.

Concentration risk

The Company ensures that collateral accepted does not increase concentration risk by firstly avoiding collateral in the same business line as the exposure and secondly preventing non-cash collateral to be grouped in concentrated sectors.

Table 17 – Credit risk mitigation techniques

Eligible financial collateral	P 000
Cash security on short-term loans	52 094

Securitisation

The Company does not engage in securitisation activities or transactions.

5 Operational Risk

5.1 Qualitative Disclosures

Operational risk is the risk of loss resulting from inadequate or failed internal processes people and systems from external events. This includes legal risk. In essence operational risk includes non-credit and non-interest rate exposures that can lead to financial loss e.g. fraud, business outages, IT failures, vendor outages or failures, financial statement control issues and processing errors.

Under the BIA approach the operational risk charge is computed by multiplying the 3-year average gross income for the Company with an alpha factor of 15%.

The Risk Department has rolled out Risk Control Self-Assessment (RCSA) in various business units in the Company as per the ERM Framework. RCSAs are a forward-looking risk assessment tool used to analyse the Company's risk profile. The RCSA process is conducted within the Company at least on a semi-annual basis between the business unit and the Risk Management team. Control weaknesses and areas of risk exposure are identified through the RCSA and Risk Mitigation Plans (RMPs) created to improve the control environment.

Incidents relating to operational risks are analysed to identify root causes in a timely manner as and when the incidents are reported. The root causes are further analysed to identify the underlying risks and for inclusion in the ORMC Information Pack if the need arises.

Such incidents include:

- Issues raised by Internal and External Audit;
- Historical operational loss incidents; and
- Other significant incidents such as major business interruptions system failures natural disasters strike and significant thefts.

The key issue when determining the categorisation of a risk event is its primary cause. A loss event will be considered an operational risk event if it arose as a result of inadequate or failed internal processes people and systems or from external events. Risk is expressed in terms of three components: event cause and effect.

Identifying the root cause(s) of a risk event helps to isolate the operational loss element from other losses and to understand what action might be appropriate to mitigate against exposure to the risk for example by amending a process system control or management approach. Some examples of operational risk causes include:

- lack of policies and procedures;
- inadequate segregation of duties;
- inadequate activity management;
- lack of management review;
- inadequate analyses;
- information processing errors;
- inadequate physical controls; and
- external events.

When an internal issue is at the root of a risk the focus is on how to address the issue. This generally involves modifying a business process or enhancing controls to reduce the potential likelihood and impact of a risk event. For example, if "miscommunication" of critical information caused exposure to a risk consideration should be given to improving the frequency and quality of communications.

When an external event is at the root of exposure to risk focus is on how leading indicators of the external event are monitored. For example, while it may be difficult to prevent lightning from striking the building weather can be monitored for early warning signs of lightning and lightning conductors installed.

5.2 Quantitative Disclosures

Table 18 – Operational Risk Charge (BIA) as at 31 December 2021

Risk type	Capital charge (P 000)
Operational risk charge based on the BIA approach	18 991

The Capital charge amount was derived from Table 4 above.

6 Interest Rate Risk in the Banking Book (IRRBB)

6.1 Qualitative Disclosures

IRRBB is the risk that the Company's financial position will be exposed to the adverse movements in interest rates. IRRBB arises when there is a mismatch between the maturity profiles of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL). The impact of rate changes is included in a monthly report reviewed by ALCO. The adverse impact generated from the shock is related to regulatory capital to assess the magnitude of the impact.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury Department in its day-to-day monitoring activities. The Company is negatively affected by lower interest rates due to the asset sensitivity of its Balance Sheet.

The overall objective of interest rate risk management is to maintain stability of net interest income (NII) over time. This is seen as being consistent with maximising shareholder value. While stability of income can be achieved by locking in interest income over a long period of time depending on the interest rate cycle this may not maximise interest income in a particular period. The placement of net non-interest-bearing liabilities in a long-term time band promotes stability of income because it encourages net assets to be invested for a similar period.

The interest rate risk management of the Company is enacted to meet the following goals:

- Ensure the Executive Committee (Exco) and Board awareness of the Company's financial risk exposures;
- Enable dynamic measurement and management of the Company's interest rate exposure;
- Select strategies that
 - (a) optimise the ability of the Company to meet its long-term financial goals; and
 - (b) maximise the Company's interest rate return while maintaining interest rate risk within policy limits established by the Board;
- Use both income and market value-oriented techniques to select strategies that optimise the relationship between risk and return; and
- Establish interest rate risk exposure limits for fluctuations in net interest income.

Interest rate risk management includes measurement management monitoring and reporting of interest rate risk.

Potential changes in net interest income are quantified by applying potential interest rate movements to the cumulative mismatch position in each defined time band. The gap model assumes that the derived potential rate movements will occur by way of an overnight rate shock to all maturities along the yield curve.

The potential rate change applied to a particular gap depends on whether the gap is asset-sensitive (more assets re-pricing than liabilities) or liability-sensitive (more liabilities re-pricing than assets). The risk to an asset-sensitive position is that rates will fall. If this occurs more assets will re-price at a lower rate than liabilities thereby squeezing the net interest margin and reducing NII. The risk to a liability-sensitive position is that rates will rise also causing a squeeze as higher borrowing costs are not offset by an equivalent earnings rate on assets.

The Company has allocated no capital to a trading book and therefore all instruments that could impact on its interest rate risk are contained in the banking book. The interest rate risk models and assumptions are subject to comprehensive risk review and appropriate board and senior management oversight to identify measure monitor and control interest rate risk in the Company's banking book.

The internal controls over the interest rate risk management process are subject to independent reviews and evaluations of effectiveness by both the Company's internal auditors and external auditors. These reviews are undertaken at least annually and made available to the Board and BOB.

6.2 Quantitative Disclosures

Table 19 – Interest Rate Re-pricing Gap Analysis (31 December 2021)

	On demand	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	TOTAL
	P000	P000	P000	P000	P000	P000
Assets						
Cash and cash equivalents	128,320	-	-	-	-	128,320
Investments with banks	243,350	14,281	53,889	-	-	311,520
Short term loans and advances to customers	52,923	-	-	-	-	52,923
Mortgage loans and advances to customers	3,165,656	-	41	4,961	10,315	3,180,973
Other assets	18,212	-	-	-	-	18,212
Total assets	3,608,461	14,281	53,930	4,961	10,315	3,691,948
LIABILITIES						
Customers' savings and fixed deposits accounts	534,332	982,373	489,668	78,589	-	2,084,962
Debentures	-	-	101,974	-	-	101,974
Borrowings	158,227	87,219	57,494	300,092	64,861	667,893
Paid up and subscription savings	426,102	-	-	-	-	426,102
Other liabilities	-	-	-	-	-	-
TOTAL LIABILITIES	1,118,661	1,069,592	649,136	378,681	64,861	3,280,931
NET LIQUIDITY GAP	2,489,800	(1,055,311)	(595,206)	(373,720)	(54,546)	411,017

The Balance Sheet of the Company is asset sensitive i.e., assets re-price faster than liabilities. The cumulative gaps shown above were within the risk appetite levels set by ALCO. The table below shows a sensitivity analysis on the repricing gap of the Company.

Interest Sensitivity Analysis

A principal part of management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios. The Company aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income. The scenarios are run only for assets and liabilities that represent the major interest-bearing positions.

7 Liquidity Risk

7.1 Qualitative Disclosures

Liquidity risk involves the inability to fund growth in assets managing unplanned changes in funding sources and to meet obligations when required without incurring additional costs or incurring a cash flow crisis. Liquidity risk includes the following underlying risks:

- Loss of confidence in BBSL by the market;
- Systemic problems;
- Unplanned withdrawal of committed borrowing facilities;
- Maturity mismatch of assets and liabilities; and
- Change in regulation.

Liquidity management encompasses an overall balance sheet approach which consolidates all sources and uses of liquidity while aiming to maintain a balance between liquidity and profitability (cost of funding). That is to measure monitor and manage on-balance sheet liquidity mismatch risk incorporating off-balance sheet or contingent liquidity risk. The Head of Risk is responsible for managing Liquidity Risk on a daily basis. ALCO provides oversight over Liquidity Risk with monthly reporting to it.

The Contingency Funding Plan (CFP) helps to ensure that BBSL can prudently and efficiently manage extraordinary and unexpected fluctuations in liquidity. The objectives of the Contingency Funding Plan are as follows:

- To ensure that the Company meets all its statutory and regulatory requirements within the stipulated times;
- To ensure that the Company meets its business obligations promptly and within committed deadlines;
- To safeguard and preserve the reputation of the Company;
- To ensure that the interests of all key stakeholders are protected and preserved;
- To prevent adverse impact on the profitability of the Company; and
- To lay down specific levels of escalation so that any liquidity problem receives timely appropriate attention.

The analysis of the net funding requirements involves the construction of a maturity ladder and the calculation of a net cumulative surplus or deficit over specified time periods. The net funding requirement is determined by analysing future cash flows based on assumptions concerning the future behaviour of on-balance sheet and off-balance sheet assets and liabilities.

Evaluating whether the Company is sufficiently liquid depends on the behaviour of future cash flows under different scenarios. Scenarios are divided into two main categories:

- Business-as-usual scenarios (Normal business conditions);
- Stress scenarios (Company-specific stress scenarios or market-wide stress scenarios).

The Company measures whether there is an adequate level of diversification of funding by monitoring diversification by term (e.g. short medium and long term) source (e.g. Government Corporates Retail) and instrument (e.g. investment securities).

There are a number of liquidity management techniques which contribute to the overall soundness of the Company's liquidity. These include:

- Ensure effective cash management in order to meet daily liquidity requirement;
- Maintain adequate diversification of funding;
- Building strong relationships with providers of funding; and

- Incorporating liquidity costs in internal pricing performance measurement and new product approval.

The Company was liquid as at 31 December 2021 with a total statutory liquid asset to deposits ratio of 17.54% against BOB required minimum of 10%.

7.2 Quantitative Disclosures

Table 20 - Contractual liquidity gap analysis

	On demand	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	TOTAL
Assets	P000	P000	P000	P000	P000	P000
Cash and cash equivalents	133,380	-	-	-	-	133,380
Investments with banks	250,730	14,437	48,317	-	-	313,484
Short term loans and advances to customers	2,205	4,351	19,016	61,608	-	87,180
Mortgage loans and advances to customers	36,739	73,375	329,057	1,680,446	3,430,964	5,550,581
Other assets	680	1,123	4,456	12,071	-	18,330
Total assets	423,734	93,286	400,846	1,754,125	3,430,964	6,102,955
LIABILITIES						
Customers' savings and fixed deposits accounts	485,843	427,211	563,605	95,955	583,107	2,155,721
Debentures	-	-	5,303	21,220	108,959	135,482
Borrowings	79,498	31,516	147,516	473,698	70,583	802,811
Paid up and subscription savings	48,116	2,533	6,078	363,803	5,671	426,201
Other liabilities	9,691	-	-	-	-	9,691
Total Liabilities	623,148	461,260	722,502	954,676	768,320	3,529,906
NET LIQUIDITY GAP	(199,414)	(367,974)	(321,656)	799,449	2,662,644	2,573,049

ALCO supplements its liquidity management tools by preparing a Business as Usual behavioral funding gap.

8 Remuneration

The Basel Committee on Banking Supervision's guidance to improve compensation practices and strengthen supervision in this area incorporates the Financial Stability Board's Principles for Sound Compensation Practices. In terms of this requirement the Company is required to disclose clear comprehensive and timely information about its compensation practices to facilitate constructive engagement by all stakeholders including in particular shareholders.

The requirements have been designed to be sufficiently granular and detailed to allow meaningful assessment by market participants of the Company's compensation practices while not requiring disclosure of sensitive or confidential information. As a result, the Company is required to disclose qualitative and quantitative information about its remuneration practices and policies covering the following areas:

- The governance / committee structures;
- The design / operation of remuneration structure frequency of review;
- The independence of remuneration for risk / compliance staff;
- The risk adjustment methodologies;
- The link between remuneration and performance;
- The long-term performance measures; and
- The types of remuneration (cash / equity fixed / variable)

BBSL's remuneration disclosure is set out in the table below.

8.1 Table 21 - Employee Remuneration

Element	Operation
Salary Overseeing Body	<p>BBSL has in place a Board Sub-Committee Human Resources and Remuneration Committee which meets on a quarterly basis. The Committee was established to make recommendations on the compensation incentives and performance targets of Executive Management as well as other BBS Limited staff members. In addition, the Committee reviews and recommends for approval by the Board the structure and funding levels of any bonus and incentive schemes.</p> <p>Risk Management:</p> <p>The following risks are taken into consideration during the remuneration process:</p> <ul style="list-style-type: none"> • Risk of losing employees due to remuneration that is below the market • Unfair and skewed salary structures; and • Succession planning for key positions.
Remuneration Process	<p>The Company's remuneration policy ensures that it attracts and retains talent. The Company further participates in the local Salary reviews by external consultants with the aim to establish relevance to the market internal equality of remunerations for staff. Salaries are reviewed on an annual basis against market information in conjunction with the individual of performance assessment and affordability.</p> <p>Linking Performance to Remuneration</p> <ul style="list-style-type: none"> • The Company uses a performance scorecard for each employee which is aligned to the achievement of set strategic goals; and • The Company's annual salary increase process is linked to individual performance and supported by the performance management process.
Types of employees	<ul style="list-style-type: none"> • Permanent • Temporary / Short-term

8.2 Table 22 – Human Resource Remuneration Committee Compensation

Member	Number of meetings attended	Remuneration P'000
Mr. Bearnard Mzizi	14	190,230
Mr. Geoffrey Bakwena - (Chairman)	24	203,500
Mr. Duraiswamy	14	114,584
Mrs. Elaina Gonsalves	7	52,500
Mr. J Kamyuka	10	84,000
Ms. Lebole Mokoto	4	40,584
Mr. R. Molosiwa	9	76,000
Mr. K.N. Monthe	9	76,000
Mr. M. Tlhagwane	9	75,500
Mr. Colm Patterson	14	120,584
Mr. Victor Ramalepa	14	120,584
Mrs. Pelani Siwawa-Ndai	6	75,000
		1,229,066

8.3 Table 23 - Quantitative disclosure of remuneration: Remuneration breakdown

	Executive management P'000	Remainder of staff P'000	Total P'000
Salaries and wages	12,017	49,587	61,604
Pension fund contributions	-	5,826	5,826
Leave pay accrual	1,181	1,016	2,197
Fair value adjustments – off market staff loan	-	301	301
Sub total	13,198	56,730	69,928
Post-employment benefits	4,457	-	4,457
Total	17,655	56,730	74,385
Staff complement	11	199	210

9 Glossary of abbreviations

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
BIA	Basic Indicator Approach
BOB	Bank of Botswana
BWP	Botswana Pula
CAR	Capital Adequacy Requirement/Ratio
ERM	Enterprise Risk Management
ERMF	Enterprise Risk Management Framework
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
KPI	Key Performance Indicator
KRI	Key Risk Indicator
MIS	Management Information System
MTP	Medium Term Plan
RC	Regulatory Capital
RCSA	Risk and Control Self-Assessment
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RWAs	Risk Weighted Assets