BBS Limited
Basel II Pillar III
Public Disclosures
Quarterly Report As at 30 June 2022

Contents

1. Introduction

The Board recognises the importance of on-going identification and management of risk in order to maintain a sound financial and reputational condition. The Board has adopted a risk management policy to affirm its awareness of the need to establish a program for Enterprise Risk Management (ERM). The Board further commits to providing sufficient personnel and other resources to ensure full implementation of an enterprise risk management program. Further, the Board acknowledges that each of BBS Limited (BBSL) activities has an element of risk. Because not all risk can be transferred to third parties through insurance policies, contracts or waivers, the management of residual risk at all levels of BBSL is imperative. The Board has delegated responsibility for Enterprise-wide Risk Management Framework (ERMF) matters to the Finance and Audit Committee which is a sub-committee of the Board.

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

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

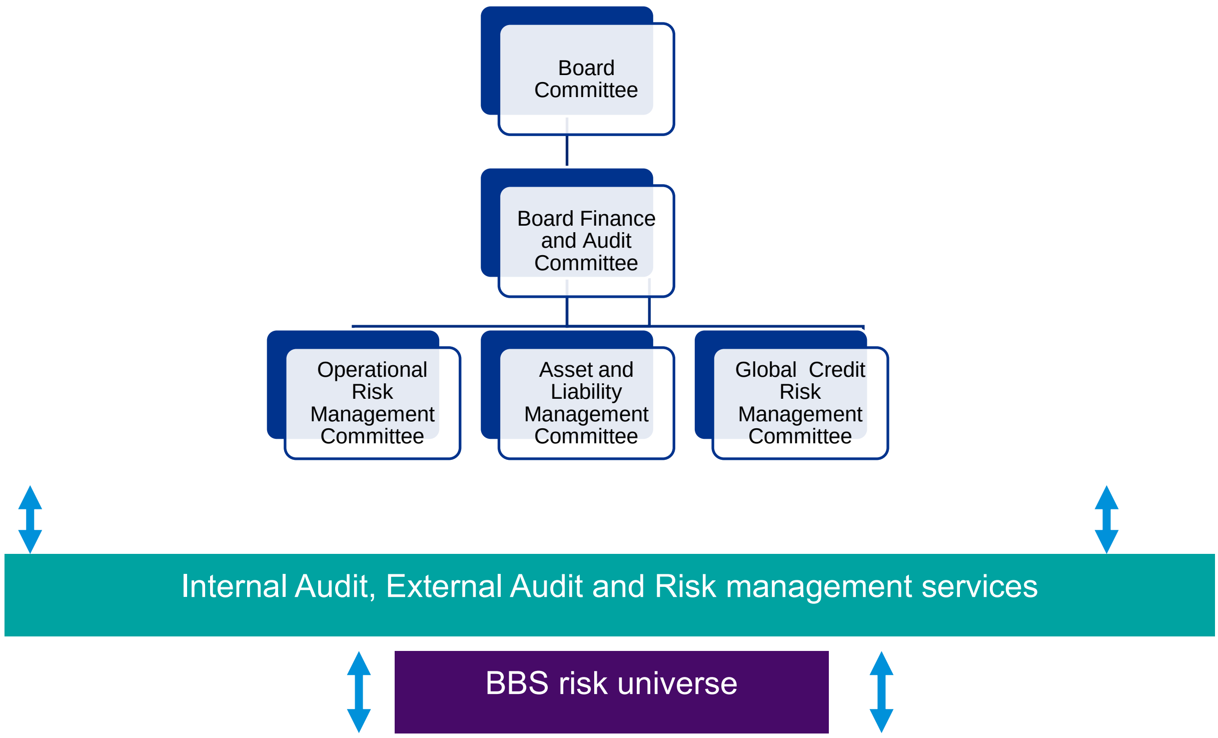

Table 1 – BBSL Risk Universe and assigned Risk Owners

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 Risk Management Committee
Brand & Reputational Risk	Head of Marketing & Communications	Finance & Audit Committee	Operational Risk Management Committee
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 of Cosec Legal and Compliance	Finance & Audit Committee	Operational Risk Management Committee
Compliance Risk	Head of Cosec Legal and Compliance	Finance & Audit Committee	Operational Risk Management Committee
Operational Risk	Head of Risk	Finance & Audit Committee	Operational Risk Management Committee
Capital Risk	Head of Finance	Finance & Audit Committee	Asset and Liability Management Committee
Financial Reporting & Taxation Risk	Head of Finance	Finance & Audit Committee	Operational Risk Management Committee
Information Technology Risk	Head of Information Technology	Finance & Audit Committee	Operational Risk Management Committee
People Risk	Human Resources Manager	Human Resources & Remuneration Committee	Operational Risk Management Committee
Projects Risk	Head of Projects & Strategy	Finance & Audit Committee	Operational Risk Management Committee
Corporate Sustainability Risk	Head of Projects & Strategy	Finance & Audit 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 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 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 Finance and Audit Committee.

A strong risk culture is critical to BBSL's success and underpins both the business strategy and risk appetite of BBSL. BBSL'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. 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 focussing on higher return on equity, growth in 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 BBSL. It requires BBSL to maintain a minimum of 12.5% of risk weighted assets covering operational, market and credit risks.

Table 2 - Capital Adequacy Ratio (CAR) Requirements (all numbers in percent)

	Common Equity Tier1	Additional Tier I	Tier I Capital	Tier II Capital	Total Capital
Minimum	4.5	3	7.5	5	12.5

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 BBSL. 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.

3.2. Capital Adequacy

3.2.1.1 Qualitative Disclosures

Capital Management Approach

BBSL has a 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 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 Executive Management assess the appropriateness of the Capital Plan which is presented to the various governance forums (ALCO on a monthly basis and Finance & 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 in order to assess the adequacy of BBSL's capital levels, capital buffers and target ratios. The framework is an integral part of BBSL's Internal Capital Adequacy Assessment Process (ICAAP) under Basel II, strategy and business plans. BBSL'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. BBSL'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 BBSL'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.

3.2.1.2 Quantitative Disclosures

Table 3 – BBSL Capital Structure as at 30 June 2022

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	(106,860)
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	**494,030**
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	14,779
Common Equity Tier I capital (CET1 CAPITAL)	**479,250**
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)	**479,250**
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	(19,868)
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	517
Regulatory adjustments applied in the calculation of Tier 2 Capital	0
Total Tier 2 Capital	**(19,351)**
Total Unimpaired Capital	**459,899**
Total Risk Weighted Assets (RWA)	**1,673,360**
Capital Ratios And Buffers	
Common Equity Tier I (As A Percentage Of Risk Weighted Assets)	**28.64%**
Tier I (As A Percentage Of Risk-Weighted Assets)	**28.64%**
Total Capital (As A Percentage Of Risk Weighted Assets)	**27.48%**

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	1,550,824	193,853
Market Risk	Standardised	-	-
Operational Risk	Basic Indicator Approach (BIA)	122,536	15,317
Total		**1,673,360**	**209,170**

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

Table 5 – Capital Adequacy Ratios as at 30 June 2022

Capital	Actual Ratio	Regulatory Minimum (%)
Common Tier 1 capital (CET1)	28.64%	4,5%
Tier 1 Capital	28.64%	7,5%
Total Unimpaired Capital	27.48%	12.50%

Table 6 – Capital Requirements for Operational Risk

Year	Gross Income (P000)
1	133,470
2	119,000
3	113,307
Aggregate Gross Income	**365,778**
Basel II Alpha Factor for BIA (α)	0.15
Aggregate Gross Income x α	54,867
Number of years with positive Gross Income	3
Operational Risk Capital Charge	18,289
Risk Weight Factor	6.7
Operational Risk RWAs	**122,536**

Table 7 – Capital Requirements for Credit Risk

Description	Risk Weighted Assets (RWAs) (P000)	Minimum Capital Requirement
On-balance sheet exposures		
Cash	940	118
Other cash balances - claims from banks	8,023	1,003
Fixed deposits with banks	86,381	10,798
Short-term loans and advances to customers	(150,240)	(18,780)
Residential loans secured	912,870	114,109
Residential loans unsecured	61,592	7,699
Past due for more than 90 days & specific provision is less than 20% of loan	105,940	13,242
Past due for more than 90 days & specific provision is more than 20% of loan	50,497	6,312
Commercial loans secured	235,327	29,416
Past due exposure where specific provision is less than 20% of the loan	21,302	2,663
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan	1,887	236
Past due exposure where specific provision is equal to 50% or more of the loan	32	4
Other assets	29,301	3,663
Intangible assets	14,779	1,847
Right-of-use assets	14,229	1,779
Properties in possession	35,958	4,495
Property Plant and Equipment	109,281	13,660
Total On Balance Sheet Amount	**1,538,098**	**192,262**
Off-balance sheet exposures	-	-
Loan commitments:	-	-
Corporate loans	1,543	193
Retail loans	11,184	1,398
Total Off Balance Sheet	**12,726**	**1,591**
Total	**1,550,824**	**193,853**

Table 8 – Expanded Regulatory Balance Sheet

	Balance sheet	Under regulatory scope of consolidation
	As at June	As at June
	2022	2022
	P’000	P’000
Assets		
Cash and balances at central banks	**44,815**	**44,815**
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)	**431,904**	**431,904**
Loans and advances to customers	**3,161,498**	**3,161,498**
Reverse repurchases 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)	**79,489**	**79,489**
Investments in associates and joint ventures		
Goodwill and intangible assets of which goodwill		
of which other intangibles (excluding MSRs)	**14,779**	**14,779**
of which MSRs		
Property plant and equipment	**109,281**	**109,281**
Total assets	**3,841,766**	**3,841,766**
Liabilities		
Deposits from banks		
Items in the course of collection due to other banks		
Customer accounts	**2,561,250**	**2,561,250**
Repurchase agreements and other similar secured borrowings	**641,234**	**641,234**
Trading portfolio liabilities		
Financial liabilities designated at fair value		
Derivative financial instruments		
Debt securities in issue (Debentures)	**101,960**	**101,960**
Accruals deferred income and other liabilities	**61,878**	**61,878**
Current and deferred tax liabilities	**1,282**	**1,282**
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	**3,367,604**	**3,367,604**
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	(126,728)	(126,728)
Accumulated other comprehensive income	113,437	113,437
Total shareholders' equity	**474,162**	**474,162**
Total Equity and Liabilities	**3,841,766**	**3,841,766**