BBS Bank Limited
Basel Pillar III
Public Disclosures Report
For the Year Ended 31 December 2024

Contents

1. INTRODUCTION

1.1. Brief Profile of The Company

BBS Bank Limited ("BBSBL") domiciled in Botswana was first established as a building society under the Building Societies Act first as United Building Society in March 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 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. 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 Group's corporate website: www.bbs.co.bw

1.2. Basel II Pillar 3 Objectives

The Banks 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 the Insurance Agency company; 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). The Financial Statements' notes contain information about the entity and its subsidiary. The basis of consolidation for financial reporting is disclosed in the notes to the Financial Statements, which differs from that used for regulatory capital reporting purposes. 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 effectively throughout the period under review in 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, especially that could impact the bank's brand and reputation.

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

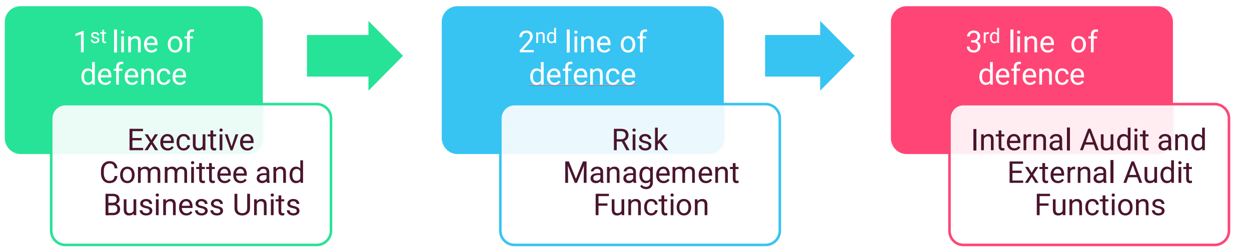
2.1. Enterprise-Wide Risk Management Framework

The bank 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 bank 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 to assess 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 updates reported 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.

2.1.1. The 3 Lines of Defence in Terms of The ERM Framework

The level of the bank 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 of Defence*** is the 'business'. This refers to both customer facing staff as well as supporting 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 documentation 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 into staff job descriptions and performance management documents.

2. ***The Second Line of Defence*** are the various functions in the Risk department. These functions play a supporting and controlling role for the benefit of the first line of defence by 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.

2.1.2. The ERM Framework Risk Culture

The basis of the bank's Enterprise Risk Management process is a continuous cycle anchored in the five (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. Further, 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 analysed in terms of likelihood of occurrence and the probable 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 taking into account 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 are listed 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 the bank. 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 BBSBL 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 BBSBL.

2.2. Governance

2.2.1. Role of the Internal Audit Department

The role of Internal Audit is to provide assurance to the Board (via the Board 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 bank's risk management policies and procedures.

2.2.2. Role of the Board

The role of Internal Audit is to provide independent, risk based and objective assurance advice, insight and foresight to the Board (via the Board 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 bank's risk management policies and procedures.

The Board has the following sub committees:

- Audit Committee
- Risk and Compliance Committee
- Human Resources and Nominations Committee

The above Board Sub-committees and Board convene on a quarterly basis. The bank's Board and its committees are comprised of eight Non-Executive Directors and one Executive Director. Management reports risk management matters to the Board Risk 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. The bank remains well capitalized, 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 – BBS Bank Risk Universe and assigned Risk Owners

The following chart represents the bank risk universe:

Level 1 Risk	Assigned Risk Owner	Board Oversight Committee	Management Oversight Committee
Business & Strategic Risk	Head of Business Transformation and Market Development	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 Treasury	Risk and Compliance Committee	Asset & Liability Management Committee
Liquidity & Funding Risk	Head of Treasury	Risk and Compliance Committee	Asset and Liability Management Committee
Legal Risk	Head of Company Secretariat, Legal & Compliance	Risk and Compliance Committee	Operational Risk Management Committee
Compliance Risk	Head of Company Secretariat, Legal & 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	Head of Human Resources	Risk and Compliance Committee	Operational Risk Management Committee
Projects Risk	Head of Business Transformation and Market Development	Risk and Compliance Committee	Operational Risk Management Committee
Corporate Sustainability Risk	Head of Business Transformation and Market Development	Risk and Compliance Committee	Operational Risk Management Committee

2.3. Risk Appetite

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

2.4. Risk Appetite Statement

The bank 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 and revenue diversification. The bank'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 bank. It requires the bank 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 bank. 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 – Capital Structure as at 31 December 2024

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	35,020
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	**522,473**
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	41,837
Common Equity Tier I capital (CET1 CAPITAL)	**480,636**
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)	**480,636**
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)	194,013
Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	-
Unpublished Current Year's Profits	-
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	9,255
Regulatory adjustments applied in the calculation of Tier 2 Capital	-
Total Tier 2 Capital	**203,268**
Total Unimpaired Capital	**683,904**

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 the bank:

- 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 and Compliance Committee on a quarterly basis) in light of any change in the bank's risk profile and other relevant factors.

Stress and Scenario Testing

The bank 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 bank'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 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.

1.1.1. Quantitative Disclosures

Table 3: Expanded Regulatory Balance Sheet

	Balance Sheet	Under regulatory scope of consolidation	Balance Sheet	Under regulatory scope of consolidation
	As at 31 December 2024	As at 31 December 2024	As at 31 December 2023	As at 31 December 2023
Assets				
Cash and balances at central banks	508,143	508,143	366,036	366,036
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)	200,383	200,383	472,102	472,102
Loans and advances to customers	4,643,141	4,643,141	4,071,336	4,071,336
Reverse repurchase agreements and other similar secured lending	-	-	-	-
Available for sale financial investments	-	-	12,593	12,593
Current and deferred tax assets	7,623	7,623	11,719	11,719
Prepayments accrued income and other assets (includes PIP and Right of use asset)	82,562	82,562	104,403	104,403
Investments in associates and joint ventures	-	-	-	-
Goodwill and intangible assets	34,214	34,214	24,660	24,660
of which goodwill	-	-	-	-
of which other intangibles (excluding MSRs)	-	-	-	-
of which MSRs	-	-	-	-
Property plant and equipment	108,845	108,845	98,400	98,400
TOTAL ASSETS	**5,584,910**	**5,584,910**	**5,161,250**	**5,161,250**
Liabilities				
Deposits from banks	-	-	-	-
Items in the course of collection due to other banks	-	-	-	-
Customer accounts	4,456,227	4,456,227	4,211,083	4,211,083
Repurchase agreements and other similar secured borrowings	510,204	510,204	271,198	271,198
Trading portfolio liabilities	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-
Derivative financial instruments	-	-	-	-
Debt securities in issue (Debentures)	-	-	102,235	102,235
Accruals deferred income and other liabilities	93,691	93,691	90,175	90,175
Current and deferred tax liabilities	2,322	2,322	2,498	2,498
Of which DTLs related to goodwill	-	-	-	-
Of which DTLs related to intangible assets (excluding MSRs)	-	-	-	-
Of which DTLs related to MSRs	-	-	-	-
Subordinated liabilities	-	-	-	-
Provisions	-	-	-	-
Total liabilities	**5,062,444**	**5,062,444**	**4,677,189**	**4,677,189**
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	35,013	35,013	(3,392)	(3,392)
Accumulated other comprehensive income	-	-	-	-
Total Shareholders' Equity	**522,466**	**522,466**	**484,061**	**484,061**
TOTAL EQUITY AND LIABILITIES	**5,584,910**	**5,584,910**	**5,161,250**	**5,161,250**

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	2,756,263	344,533
Market Risk	Standardised	1,464	183
Operational Risk	Basic Indicator Approach (BIA)	157,806	19,726
	TOTAL	**2,915,533**	**364,442**

Table 5 – Capital Requirements for Credit Risk

Description	Risk Weighted Assets (RWAs) (P000)	Minimum Capital Requirement (P000) – at 12.5%
On-balance sheet exposures		
Cash	-	
Other cash balances - claims from banks	62,107	7,763
Fixed deposits with banks	-	-
Properties in possession	-	-
Short-term loans and advances to customers	998,545	124,818
Residential loans secured	972,595	121,574
Residential loans unsecured	-	-
Past due for more than 90 days & specific provision is less than 20% of loan	116,119	14,515
Past due for more than 90 days & specific provision is more than 20% of loan	56,600	7,075
Commercial loans secured	224,259	28,032
Past due exposure where specific provision is less than 20% of the loan	25,299	3,162
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan	2,429	304
Past due exposure where specific provision is equal to 50% or more of the loan	322	40
Other assets	261,350	32,669
Intangible assets	19,058	2,382
Right-of-use assets	-	-
Property Plant and Equipment	-	-
Total On-Balance sheet exposures	**2,738,682**	**342,335**
Off-balance sheet exposures		
Loan commitments:		
Corporate loans	1,257	157
Retail loans	16,389	2,049
Total Off-Balance sheet exposures	**17,645**	**2,206**
GRAND TOTAL	**2,756,328**	**344,541**

Table 6 – Capital Requirements for Operational Risk

Year	31 December 2024 Gross Income	31 December 2023 Gross Income
1	117,543	112,598
2	140,259	118,932
3	213,260	167,411
Aggregate Gross Income	471,062	398,941
Basel II Alpha Factor for BIA (α)	15%	15%
Aggregate Gross Income x α	70,659	59,841
Number of years with positive Gross Income	3	3
Operational Risk Capital Charge	23,553	19,947
Risk Weight Factor	6.7	6.7
Operational Risk RWAs	**157,806**	**133,645**

The bank 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 – Common Equity Tier 1

CAR	%	Regulatory Minimum (%)
Tier 1	16.49%	7.50%
CET1	17.92%	4.50%

Table 8 – Capital Adequacy Ratios as at 31 December 2024

CAR	%	Regulatory Minimum (%)
Total Unimpaired Capital	23.46%	12.50%

The bank met the Capital Adequacy requirements as at 31 December 2024.

2. Credit Risk

2.1. Qualitative Disclosures

2.1.1. Credit Risk Policy

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

- Establishing an appropriate credit risk environment;
- Managing the credit activities of the bank 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 bank i.e. the Board Risk and Compliance Committee and 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 bank'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 the bank applies International Financial Reporting Standard (IFRS) 9 to calculate expected losses on loans and advances. The bank has developed models to compute loan impairments on this basis. The bank 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 bank groups its loans into Stage 1, Stage 2, Stage 3 as described below:

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 BBSBL expects to sustain a loss of principal and/or interest taking account of the market value of security.	R8-9

Table 8 – Loan classification criteria

2.2. Quantitative Disclosures

Table 9 - Analysis of Credit Exposures as at 31 December 2024

	2024	2023
Category of Credit Risk	**Exposure (P000)**	**Exposure (P000)**
Bank Balances (including balances with central bank)	470,129	356,137
Financial Investments	200,382	472,102
Loans and advances to customers	4,643,141	4,071,336
Other assets	11,765	8,331
Total	**5,325,417**	**4,907,906**

Table 10 - Loans and Advances to Customers – On Balance Sheet

2024

	Stage 1 Performing	Stage 2 Performing	Stage 2 Nonperforming (past due)	Stage 3 Nonperforming	Total
Assets at amortised cost individually impaired	**(P000)**	**(P000)**	**(P000)**	**(P000)**	**(P000)**
Standard	3,884,979	-	56,967	12,363	3,954,309
Special mention/Watch list	180,566	342	256,061	21,333	458,302
Substandard	2,902	-	37,594	13,795	54,291
Doubtful	7	-	-	80,451	80,458
Loss	-	-	-	176,431	176,431
Gross carrying amount	**4,068,454**	**342**	**350,622**	**304,373**	**4,723,791**
ECL impairment allowance	(9,345)	(1)	(1,736)	(69,568)	(80,650)
Net loans and advances	**4,059,109**	**341**	**348,886**	**234,805**	**4,643,141**

2023

	Stage 1 Performing	Stage 2 Performing	Stage 2 Nonperforming	Stage 3 Nonperforming	Total
Assets at amortised cost individually impaired	**(P000)**	**(P000)**	**(P000)**	**(P000)**	**(P000)**
Standard	3,411,041	-	18,548	7,850	3,437,439
Special mention/Watch list	29,312	35,847	272,026	24,018	361,203
Substandard	2,668	-	68,667	15,093	86,428
Doubtful	181	-	39	106,619	106,839
Loss	27	-	1	141,060	141,088
Gross carrying amount	**3,443,229**	**35,847**	**359,281**	**294,640**	**4,132,997**
ECL impairment allowance	(6,019)	(216)	(2,391)	(53,035)	(61,661)
Net loans and advances	**3,437,210**	**35,631**	**356,890**	**241,605**	**4,071,336**

Table 11 - Mortgage Loans and Advances to Customers – Off Balance Sheet

2024

	Stage 1 Performing (P000)	Stage 2 Performing (P000)	Stage 2 Nonperforming (P000)	Stage 3 Nonperforming (P000)	Total (P000)
Assets at amortised cost individually impaired	**88,226**				**88,226**
Gross Carrying Amount	**88,226**				**88,226**
ECL impairment allowance	**(32)**	-	-	-	**(32)**
Net loans and advances	**(32)**	-	-	-	**(32)**

2023

	Stage 1 Performing (P000)	Stage 2 Performing (P000)	Stage 2 Nonperforming (P000)	Stage 3 Nonperforming (P000)	Total (P000)
Assets at amortised cost individually impaired	**83,558**				**83,558**
Gross Carrying Amount	**83,558**				**83,558**
ECL impairment allowance	**(66)**	-	-	-	**(66)**
Net loans and advances	**(66)**	-	-	-	**(66)**

Table 12 - Expected Credit Loss

	2024 P000	2023 P000
Expected credit loss allowance - Loans and advances to customers	14,139	5,387
Expected credit loss allowance - Mortgages Loans Commitments	(34)	47
Expected credit loss allowance - Staff loans Writeoff	-	59
TOTAL	**14,105**	**5,493**

Table 13 - An Estimate of the Fair Value of Collateral and other Tangible Security Enhancements Held Against Financial Assets

	Loans and advances to customers 2024 P000	Loans and advances to customers 2023 P000
Against Stage 2 and 3 facility - Property	1,413,696	1,513,800
Against Stage 1 loans facility - Property	5,729,167	5,687,076
Against short-term loans not impaired- cash deposit	115,144	248,528
Total	**7,258,007**	**7,449,404**

4.2.6 Geographical Distribution

The bank does not engage in cross-border lending. All the credit risk exposures shown above in Table 9 are within the country of Botswana.

Carrying Amount of Concentration By Location	P'000
Urban	3,224,725
Rural	82,713
Total	**3,307,438**

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.

Table 14 – Residual Contractual Maturity Analysis – LTV Ratio

	2024	2023
Residual contractual maturity	**Exposure (P000)**	**Exposure (P000)**
Less than 60%	1,360,995	1,364,645
60 - 70%	483,175	509,466
70 - 80%	581,304	569,989
80 - 90%	776,279	722,424
More than 90%	105,685	112,765
Total	**3,307,438**	**3,279,289**

Table 15 – Loan Commitments

	2024	2023
Residual contractual maturity	**Exposure (P000)**	**Exposure (P000)**
Less than 60%	83,104	79,419
60 - 70%	2,060	790
70 - 80%	1,443	1,062
80 - 90%	1,589	968
More than 90%	30	1,319
Total	**88,226**	**83,558**

Table 16 - Reconciliation of impairment charge

	Collective Impairments (P000)	Specific Allowance (P000)	Total Impairments (P000)
Opening Balance (1 Jan 2024)	9,345	71,305	80,650
Closing balance (31 December 2024)	**9,345**	**71,305**	**80,650**

2.3. Credit Risk Mitigation

Credit risk mitigation refers to the actions that can be taken by the bank 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 a number of 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 their own resources and cash flow. Credit risk mitigation is also achieved by the bank via 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 bank;
- When cash on deposit certificates of deposit or comparable instruments issued by the bank are held as collateral at a third-party bank in a non-custodial arrangement the bank 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 bank the pledge / assignment is unconditional and irrevocable and the bank 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 bank in order 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 bank does not use derivative instruments for credit risk mitigation. The bank also does not use on-Balance Sheet and off-Balance Sheet netting in credit risk mitigation.

2.4. Collateral Valuation and Management

The valuation and management of collateral is governed by the Credit Policy. The bank 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 bank's quarterly reporting schedule. Some collateral for example, cash or securities relating to margining requirements is valued daily. To the extent possible the bank 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.

2.4.1. 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.

2.4.2. 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 bank's attorneys.

2.5. Concentration risk

The bank 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.

a. Risk concentration by industry sector (Retail)

INDUSTRY (RETAIL)	COUNT	VALUE	% of Total Mortgage Book
Agriculture,HuntingandForestry	77	19,410,421	0.59%
Construction	53	24,170,531	0.73%
Education	861	301,034,936	9.10%
Electricity,GasandWaterSupply	231	92,012,442	2.78%
FinancialIntermediation	1061	577,063,721	17.45%
Healthandsocialwork	509	235,669,779	7.13%
HotelsandRestaurants	47	15,696,104	0.47%
Manufacturing	125	56,799,381	1.72%
Mining&Quarrying	491	296,890,902	8.98%
OtherCommunity,Social,HouseholdandPersonalServices	2747	696,492,500	21.06%
RealEstateandBusinessActivities	846	401,788,071	12.15%
SecurityOrgans	125	76,205,171	2.30%
Transport,StorageandCommunication	436	229,087,345	6.93%
WholesaleandRetailTrade	128	55,854,191	1.69%
TOTAL	**7737**	**3,078,175,494**	**93.07%**
TOTAL MORTGAGE BOOK	**8032**	**3,307,437,934**	**100.00%**

b. **Risk concentration by industry sector (Commercial)**

INDUSTRY (COMMERCIAL)	COUNT	VALUE	% of Total Mortgage Book
Agriculture,HuntingandForestry	5	1,314,960	0.04%
Construction	4	4,376,666	0.13%
Education	2	3,265,036	0.10%
FinancialIntermediation	8	1,709,846	0.05%
Healthandsocialwork	9	5,498,422	0.17%
HotelsandRestaurants	7	5,106,026	0.15%
Manufacturing	3	2,469,758	0.07%
Mining&Quarrying	2	1,233,446	0.04%
OtherCommunity,Social,HouseholdandPersonalServices	53	22,070,802	0.67%
RealEstateandBusinessActivities	191	191,359,616	5.79%
SecurityOrgans	2	2,958,474	0.09%
Transport,StorageandCommunication	8	5,629,330	0.17%
WholesaleandRetailTrade	1	298,132	0.01%
TOTAL	**295**	**247,290,515**	**7.48%**
TOTAL MORTGAGE BOOK	**8032**	**3,307,437,934**	**100.55%**

Table 17 – Credit risk mitigation techniques

Eligible Financial Collateral	P 000
Cash security on short-term loans	59,467

2.6. Securitisation

The bank does not engage in securitisation activities or transactions.

3. Operational Risk

3.1. Qualitative Disclosures

The management of operational risk is anchored on an established risk strategy that provides the overall principles and objectives, with defined risk appetite reflecting the bank's acceptable tolerance level for financial risk. 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 bank with an alpha factor of 15%.

The Risk Department has rolled out Risk Control Self-Assessment (RCSA) in various business units in the bank as per the ERM Framework. RCSAs are a forward-looking risk assessment tool used to analyse the bank's risk profile. The RCSA process is conducted within the bank 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 then 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 can be installed.

3.2. Quantitative Disclosures

Table 18 – Operational Risk Charge (BIA) as at 31 December 2024

Risk type	Capital charge (P000)
Operational risk charge based on the BIA approach	19,726

The Capital charge amount was derived from Table 4 of this document.

4. Market Risk

4.1. Qualitative Disclosures

Market risk is the risk that the bank's financial position will be exposed to the adverse movements in interest rates. Market risk 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 in order 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 Risk Department in its day-to-day monitoring activities. The bank 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 bank is enacted to meet the following goals:

- Ensure the Executive Committee (Exco) and Board awareness of the bank's financial risk exposures;
- Enable dynamic measurement and management of the bank's interest rate exposure;
- Select strategies that:
- optimise the ability of the bank to meet its long-term financial goals; and
- maximise the bank'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 net interest income. The risk to a liability-sensitive interest rate position is that rates could rise also causing a squeeze on the margins as higher borrowing costs are not offset by an equivalent earnings rate on assets.

The bank 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 bank'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 bank's internal auditors and external auditors. These reviews are undertaken at least annually and made available to the Board and BOB.

4.2. Quantitative Disclosures

Table 19 – Interest Rate Re-Pricing Gap Analysis (31 December 2024)

2024

ASSETS	0-3 months P000	3-12 months P000	1-2 years P000	2-5 years P000	Over 5 years P000	TOTAL P000
Cash and cash equivalents	470,129		-		-	**470,129**
Investments with banks and other	200,382	-	-	-	-	**200,382**
Loans and advances to customers	4,637,574	1,678	262	154	3,473	**4,643,141**
Total assets	**5,308,085**	**1,678**	**262**	**154**	**3,473**	**5,313,652**
LIABILITIES						
Customers' deposits	3,193,652	1,250,044	12,113	418	-	**4,456,227**
Borrowings	5,484	4,068	8,190	238,267	-	**256,009**
Balance due to other banks	50,074	-	-	-	-	**50,074**
Debentures	-	3,121	10,000	-	191,000	**204,121**
Total Liabilities	**3,249,210**	**1,257,233**	**30,303**	**238,685**	**191,000**	**4,966,431**
NET LIQUIDITY GAP	**2,058,875**	**(1,255,555)**	**(30,041)**	**(238,531)**	**(187,527)**	**347,221**

2023

ASSETS	0-3 months P000	3-12 months P000	1-2 years P000	2-5 years P000	Over 5 years P000	TOTAL P000
Cash and cash equivalents	263,341	-	-	-	-	**263,341**
Financial Investments	200,669	271,433	-	-	-	**472,102**
Loans and advances to customers	4,060,274	137	891	1,612	8,422	**4,071,336**
Total assets	**4,524,284**	**271,570**	**891**	**1,612**	**8,422**	**4,806,779**
LIABILITIES						
Customers' deposits	1,527,634	2,454,652	215,087	9,045	4,665	**4,211,083**
Borrowings	9,267	75,941	103,128	82,862	-	**271,198**
Debentures	-	102,235	-	-	-	**102,235**
Total Liabilities	**1,536,901**	**2,632,828**	**318,215**	**91,907**	**4,665**	**4,584,516**
NET LIQUIDITY GAP	**2,987,383**	**(2,361,258)**	**(317,324)**	**(90,295)**	**3,757**	**222,263**

The Balance Sheet of the bank 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 bank.

4.3. 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 bank 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.

5. Funding-Liquidity Risk

5.1. Qualitative Disclosures

Funding-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. Funding-liquidity risk includes the following underlying risks:

- Loss of confidence in BBSBL 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 Treasury 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 BBSBL 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 bank meets all its statutory and regulatory requirements within the stipulated times;
- To ensure that the bank meets its business obligations promptly and within committed deadlines;
- To safeguard and preserve the reputation of the bank;
- To ensure that the interests of all key stakeholders are protected and preserved;
- To prevent adverse impact on the profitability of the bank; 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 bank 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 (Bank-specific stress scenarios or market-wide stress scenarios)

The bank 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 bank'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 bank was liquid as at 31 December 2024 with a total statutory liquid asset ratio of 15.56% against the BOB required minimum of 10%.

5.2. Quantitative Disclosures

Table 20 - Contractual liquidity gap analysis

2024

ASSETS	On demand P000	1 - 3 months P000	3 - 12 months P000	1 - 5 years P000	Over 5 years P000	TOTAL P000
Cash and cash equivalents	470,129	-	-	-	-	**470,129**
Financial Investments	200,401	-	-	-	-	**200,401**
Other assets	11,765	-	-	-	-	**11,765**
Loans and advances to customers	67,067	133,715	594,167	2,936,592	4,843,376	**8,574,917**
Total assets	**749,362**	**133,715**	**594,167**	**2,936,592**	**4,843,376**	**9,257,212**
Liabilities						
Customers' deposits	1,480,673	1,064,541	1,791,438	34,753	21,395	**4,392,800**
Borrowings	7,128	5,468	113,340	162,066	-	**288,002**
Balance due to other banks	50,154	-	-	-	-	**50,154**
Debentures	-	-	15,830	71,855	247,845	**335,530**
Lease liabilities	296	864	2,328	12,604	3,645	**19,737**
Other liabilities	35,489	-	-	-	-	**35,489**
Total Liabilities	**1,573,740**	**1,070,873**	**1,922,936**	**281,278**	**272,885**	**5,121,712**
Commitments	125,491	31,159	31,576	-	-	**188,226**
NET LIQUIDITY GAP	**(949,869)**	**(968,317)**	**(1,360,345)**	**2,655,314**	**4,570,491**	**3,947,274**

2023

ASSETS	On demand P000	1 - 3 months P000	3 - 12 months P000	1 - 5 years P000	Over 5 years P000	TOTAL P000
Cash and cash equivalents	356,137	-	-	-	-	**356,137**
Financial Investments	100,192	101,471	278,244	-	-	**479,907**
Other assets	8,331	-	-	-	-	**8,331**
Loans and advances to customers	58,492	116,524	519,107	2,541,577	4,735,776	**7,971,476**
Total assets	**523,152**	**217,995**	**797,351**	**2,541,577**	**4,735,776**	**8,815,851**
Liabilities						
Customers' deposits	869,140	129,189	2,649,856	706,010	17,500	**4,371,695**
Borrowings	8,084	5,471	24,459	284,067	4,388	**326,469**
Debentures	1,122	1,141	4,583	124,905	-	**131,751**
Lease liabilities	229	694	1,914	11,313	4,628	**18,778**
Other liabilities	31,607	-	-	-	-	**31,607**
Total Liabilities	**910,182**	**136,495**	**2,680,812**	**1,126,295**	**26,516**	**4,880,300**
Commitments	4,201	61,960	17,396	-	-	**83,557**
NET LIQUIDITY GAP	**(391,231)**	**19,540**	**(1,900,857)**	**1,415,282**	**4,709,260**	**3,851,994**

6. 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 bank 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 bank'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)

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

6.1. Table 21 - Employee Remuneration

Element	Operation
Salary Overseeing Body	The bank has in place a Board Sub-Committee Human Resources and Nominations 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 BBSBL 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. **Risk Management:** The following risks are taken into consideration during the remuneration process: • 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	The bank's remuneration policy ensures that it attracts and retains talent. The bank 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. **Linking Performance to Remuneration** • The bank uses a performance contract for each employee which is aligned to the achievement of set strategic goals; and • The bank's annual salary increase process is linked to individual performance and supported by the performance management process. The bank may also offer salary adjustment increases to adjust for cost-of-living increases.
Types of employees	• Permanent • Temporary / Short-term • Contractual

6.2. Table 21 – Board and Committee Meeting Attendance

Member	2024	2023	2024	2023
	P	P	Number of Meetings	Number of Meetings
Bernard Mzizi	15,000	229,500	1	19
Vincent Bino Mogano	331,000	270,000	20	21
Geoffrey Bakwena	193,000	205,500	19	24
Koziba Moloyi	250,000	226,250	22	23
Victor Ramalepa	52,000	153,000	6	18
Duraiswamy Kalyanaraman	52,000	181,500	6	21
Sejo Lenong	182,500	108,500	18	12
Lehuka Maseng	64,500	99,000	7	11
Ewetse Rakhudu	121,500	-	11	-
Mmoloki Mogotsi	106,500	-	9	-
John Kimani Muiruri	47,000	-	5	-
Pulane Letebele	47,000	-	5	-
	1,462,000	**1,473,250**		

As part of its governance planning the Board with the assistance of the Company Secretary and Managing Director develop a meeting calendar for the financial year, and a forward plan which details out key matters to be considered at each quarter. During the financial year, the board and committees held an aggregate of 23 meetings (2023: 27 meetings) excluding other board engagements.

The remuneration of directors is governed by the Directors Remunerations and Expenses Policy that is approved by the board, which seeks to attract and retain skilled individuals that will help increase shareholder value, subject to affordability. The fees are aligned to the size and operations of the Company and are required to be reviewed biennially to determine their relevance and competitiveness. During the year under review, a total of P1,462,000 was paid towards Board fees compared to P1473,250 in 2023.

6.3. Table 23 - Quantitative disclosure of remuneration: Remuneration breakdown

	Executive management P'000	Remainder of staff P'000	Total P'000
Salaries and wages	15,931	55,642	71,573
Pension fund contributions	282	6,089	6,371
Leave pay accrual	822	545	1,367
Fair value adjustments – off market st	747	8,442	9,189
Sub total	**17,783**	**70,717**	**88,500**
Post-employment benefits	4,443	111	4,554
Total	**22,226**	**70,828**	**93,054**
Staff complement	13	189	202

7. Conclusion

This disclosure document, was prepared in accordance with the Basel II Framework's criteria on market disclosures and aims to give background information on the bank's approach to risk management in relation to upholding and protecting the bank's capital position. Additionally, it provides detailed information about Pillar 1 asset and capital calculations.

8. Glossary of abbreviations

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
BIA	Basic Indicator Approach
BOB	Bank of Botswana
BBSBL	BBS Bank Limited
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