Annual Report 2022

How far can we go?

BBS Bank

Patriotism

Together we created the only local building society in Botswana, then devoted 18 years to realise our dream to open the country's first indigenous bank.

How far can we go?

BBS Bank

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BBS Bank

Our journey

1970
United Building Society of South Africa

1976
- Botswana Building Society established, taking over the operations of United Building Society with one Branch in the Main Mall, Gaborone. Product offering limited to financing property in urban areas, small scale savings and investments in paid up, subscription and indefinite period shares respectively.
- First Board of Directors Meeting held on 13th December 1976
- Inaugural Board of Directors comprised R. Whyte (Chairman), P.F. Brink, B.I. Gasennelwe, P.R. Hinchey, E.M.K. Kgabo, J.J. Tebape, J.L.S. Hefer, W.M. Seboni and D.R. van Selm (alternate to J.L.S. Hefer)
- D.J. Russell appointed first CEO
- Francistown Agency opened.

1977
Lobatse Agency opened

1978
K.B. Good appointed CEO

1980
- Selibe Phikwe Agency opened.
- Logo with a roof over "BBS" adopted. Designed by Tshipidi Promotions.

1981
R. Peverett appointed Chief Executive Officer and Secretary

1982
Ceremony to mark commencement of construction of BBS Head Office in Broadhurst held. The Head Office is still in use.

1983
- Francistown Branch opened.
- Upgraded BBS logo which now included a map of Botswana adopted. Designed by Screen Print.
- Selibe Phikwe Branch opened.

1984
First Board Meeting held at the new Head Office (26 March).

1985
- First Motswana CEO
- P.T. Nteta appointed Chief Executive Officer.

1986
Building Societies Act amended to enable BBS to finance property in rural areas.

1990 - 2000
Maun, Serowe, Thusanyo and Kasane Branches opened

2004
P. K. Molefe appointed CEO

2011
Express Lounge opened at BBS Head Office

2012
BBS Francistown building opened. Branch relocates to the building from Dabo House

2017
- BBS shareholders vote to allow the building society to apply for a commercial banking licence.
- Building Societies Act and Companies Act amended to allow BBS to apply for a commercial banking licence.
- BBS becomes a company, BBS Limited, so that it can apply for the licence.

2018
Palapye Branch opened

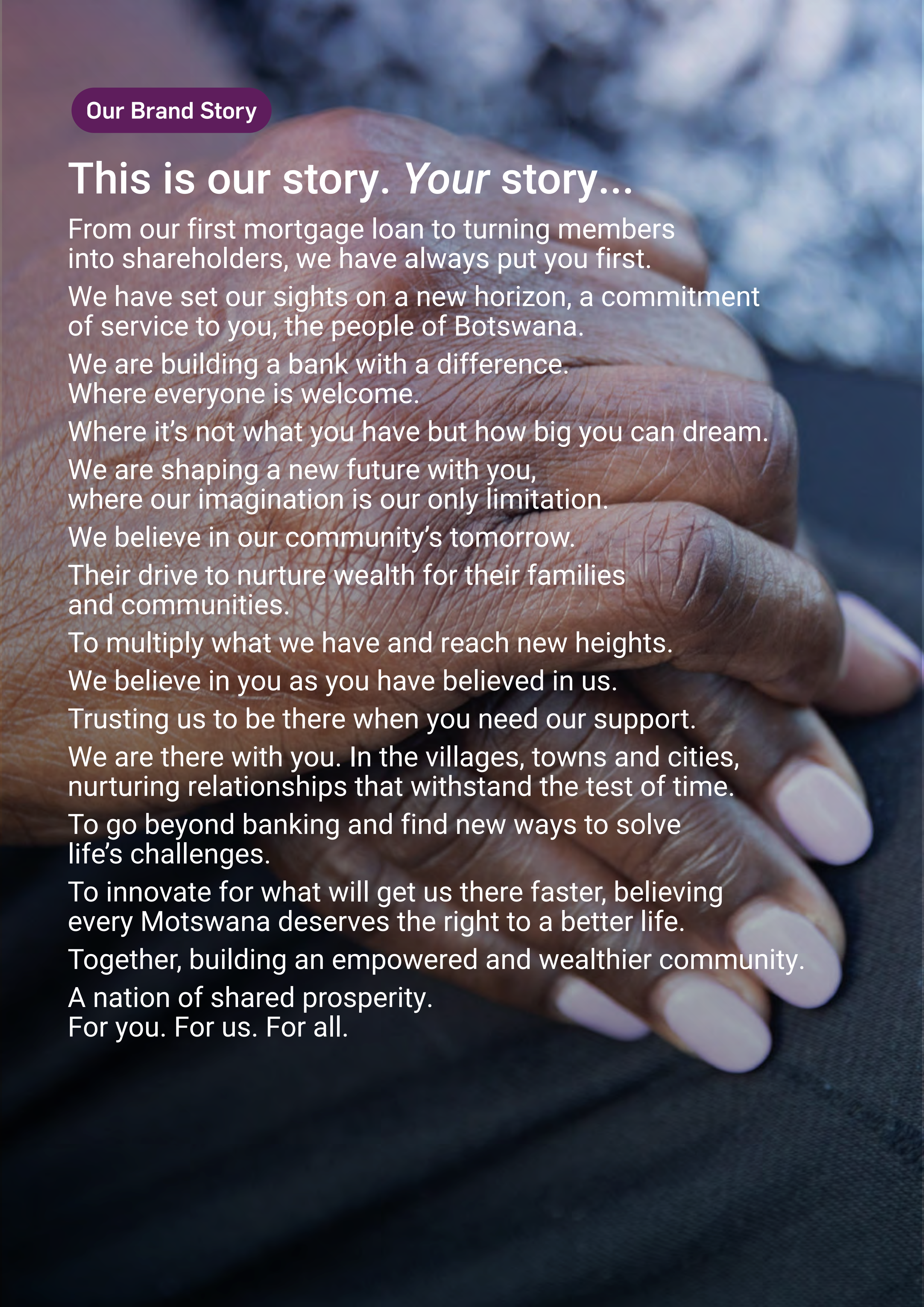
2020
- BBS Limited puts in place risk measures to mitigate the impact of COVID -19 on the business
- BBS Limited puts in place working from home arrangement to protect staff and customers from COVID 19

2022
- BBS Insurance Agency Limited established
- BBS Bank granted commercial banking licence making it the first indigenous commercial bank.
- The bank embarked on the bank roll-out journey to build capabilities to offer a broad range of products and services, including through digital platforms and automated teller machines, way beyond the ones it started offering as a building society in 1976. BBS Bank has Branches at Head Office, Thusanyo in Gaborone, Main Mall in Gaborone, Lobatse, Palapye, Serowe, Selibe Phikwe, Francistown, Maun and Kasane.
- BBS logo amended by removing the "roof" design and inscribing "BBS Bank" beneath the map of Botswana to indicate transition to commercial banking and pending the launch of the new brand.

2023
- P. Tafa appointed the first Managing Director of the new commercial bank, BBS Bank. She is also the first female to head the institution.
- Inaugural Board of BBS Bank: B. Mzizi (Chairman), P.Tafa (Managing Director) G. Bakwena, D. Kalyanaraman, V. Ramalepa, K. Moloyi-Sedimo and V. Mogano (Lead Independent Director).
- New BBS Bank brand introduced to the market.

Our New Brand

Our brand story and strategy are the foundation for everything that follows.



Our Brand Story

This is our story. *Your* story...

From our first mortgage loan to turning members into shareholders, we have always put you first.

We have set our sights on a new horizon, a commitment of service to you, the people of Botswana.

We are building a bank with a difference.
Where everyone is welcome.

Where it's not what you have but how big you can dream.

We are shaping a new future with you, where our imagination is our only limitation.

We believe in our community's tomorrow.

Their drive to nurture wealth for their families and communities.

To multiply what we have and reach new heights.

We believe in you as you have believed in us.

Trusting us to be there when you need our support.

We are there with you. In the villages, towns and cities, nurturing relationships that withstand the test of time.

To go beyond banking and find new ways to solve life's challenges.

To innovate for what will get us there faster, believing every Motswana deserves the right to a better life.

Together, building an empowered and wealthier community.

A nation of shared prosperity.
For you. For us. For all.

Our tagline

How far can we go?

How far can we go? Is both a rallying call and a challenge for us to set a new standard in banking for Batswana from all walks of life. From funding over 60% of home loans in Botswana since the 1970s, to supporting growing local businesses and turning our customers into shareholders, the future can only take us to greater heights.

Our next chapter as a commercial bank is founded on partnership with you the people of Botswana and together, we can set a new bar for what it means to be a truly home-grown bank. How far can we go? Is our intent to co-create products and solutions with our customers that fit their lives and circumstances and to do it with a world class banking system and unrivalled customer experience.

At BBS Bank we do not just ask “How far can we go?” We also ask “how far do you want to go?” BBS Bank is for you. Make us your only choice and together we can go as far as our collective dreams can take us.

Our colours

Botho

Inclusive

Wealth

Human

Growth

Purple is our primary colour. It is the colour of royalty, luxury, wealth and sophistication. It is also the colour of passion, romance and prosperity – together, nurturing inclusive wealth for all. Our sky blue colour links us to our heritage, to our land and our people who make up our beautiful country.

Our Products and Services

Mortgage products

Our reputation in the mortgage business is unparalleled. Many homes and businesses in Botswana have been financed by us, both in urban and rural areas. In fact, BBS Bank is the only local bank that has appetite to finance mortgages in rural areas. We have now gone further: Limits for rural areas have been increased making it easier for our people to build anywhere in the country.

Ntshegetsa Loan

This is a unique product available to those who already have savings accounts with us. It is quick and easy because the loan is secured against your savings. Actually, it can be processed while you wait!

Nomad Digital Banking

In the next few weeks, BBS Bank will introduce Nomad Digital Banking Services, which will allow you to bank anywhere. This will minimise the need to come to our physical Branches. Nomad Digital Banking will allow you to transact via:
- Internet Banking
- Mobile phone banking
- USSD Don't be left behind.

Insurance

For your insurance needs, we are able to provide cover for you through our in-house company BBS Insurance Agency Limited, cutting off a lot of intermediary costs and saving you time. That is value for money.

Visa capability

BBS Bank is now VISA enabled. With VISA you can not only use it on our automated teller machines but on others as well ensuring that you have access to your funds even beyond areas where BBS Bank has Branches, locally and internationally.

If you already haven't done so, apply for your BBS Bank Visa enabled card at any of our Branches.

Customer Service

Of course, you can walk into our Branches any time for assistance, but you can also reach us beyond normal working hours or at your convenience:

Call Centre 3631551/96
bbs@bbs.co.bw
+267 77 077 688
BBS Bank
BBS Bank
@BBS_BW

Join BBS Bank and see how far we will go with you.

Ipechetse Personal Loan

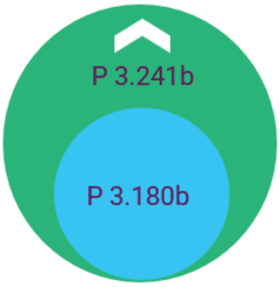
Our unsecured new Ipechetse Personal Loan offering allows to borrow money to meet your various obligations.

BBS Bank

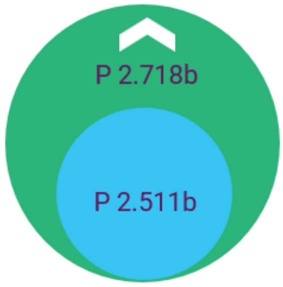
Performance Highlights

Dec 2022 Dec 2021

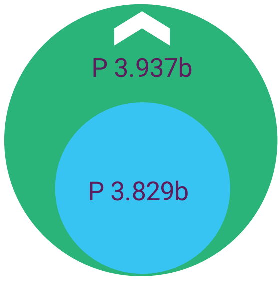
The 2022 performance figures include BBS Insurance Agency Limited for the six (6) months ended 31 December 2022.



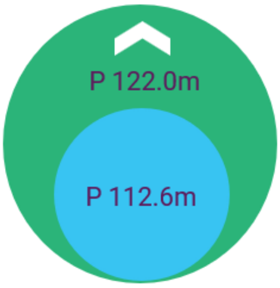
Net Loans & Advances (Mortgages & Short Loans)



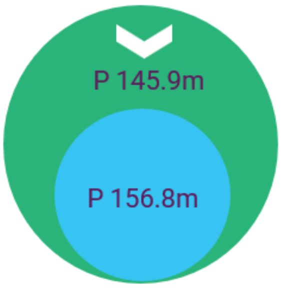
Customer Deposits (Including Paid-Up & Subscription Savings)



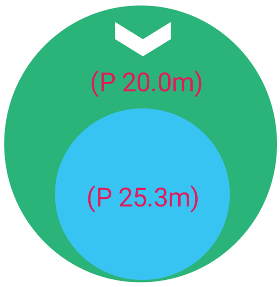
Total Assets



Operating Income

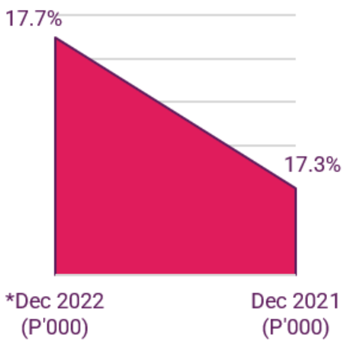


Operating Expenditure

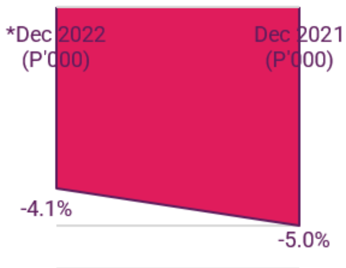


Loss After Tax

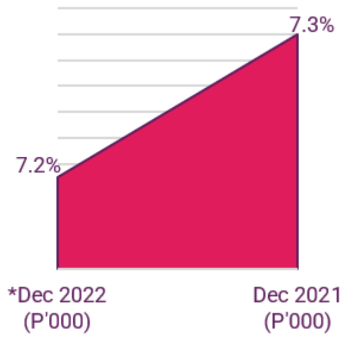
Liquid Assets Ratio



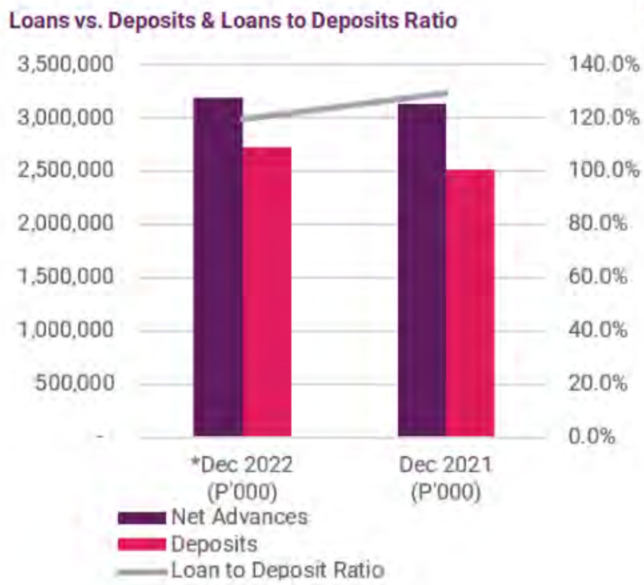
Return on Equity

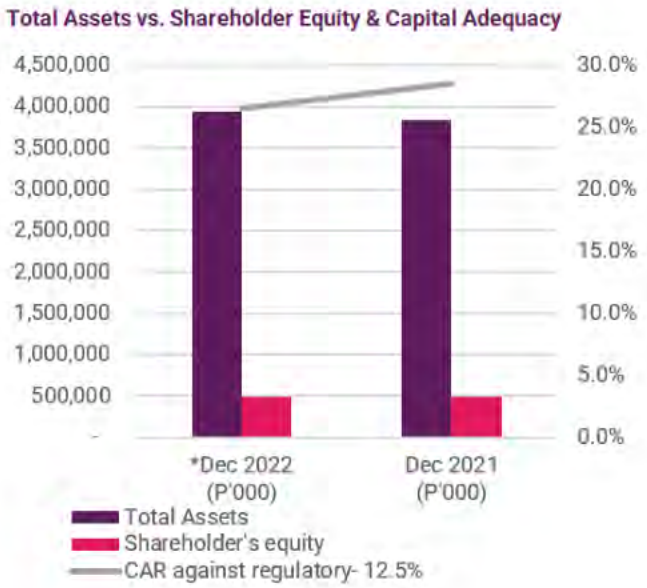


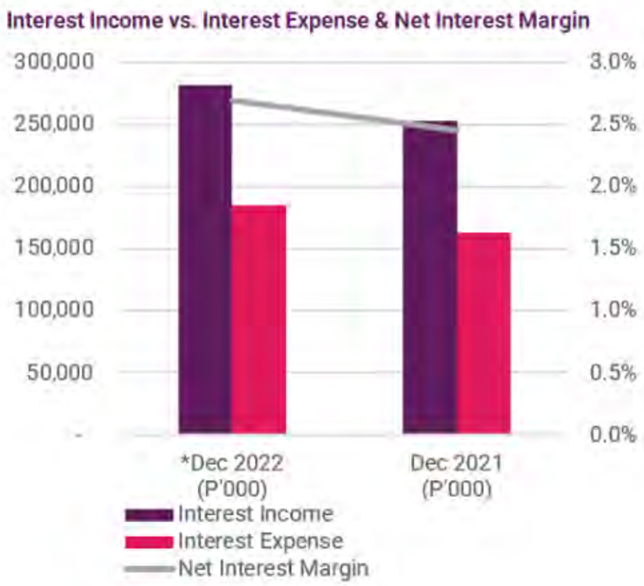
NPL as % of Gross Advances



Financial Graphs





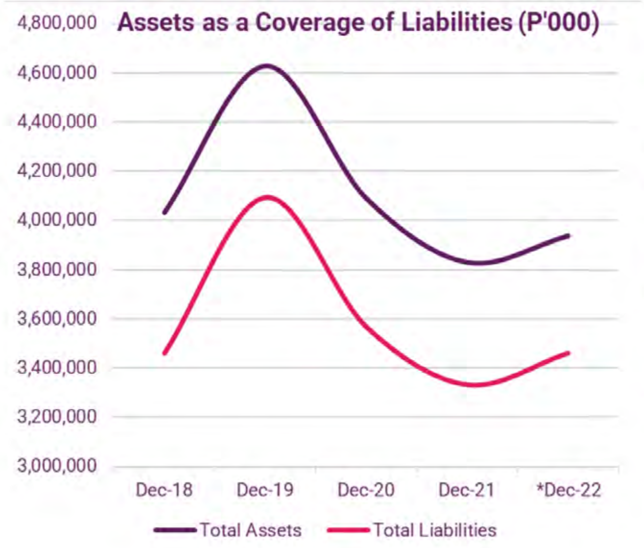


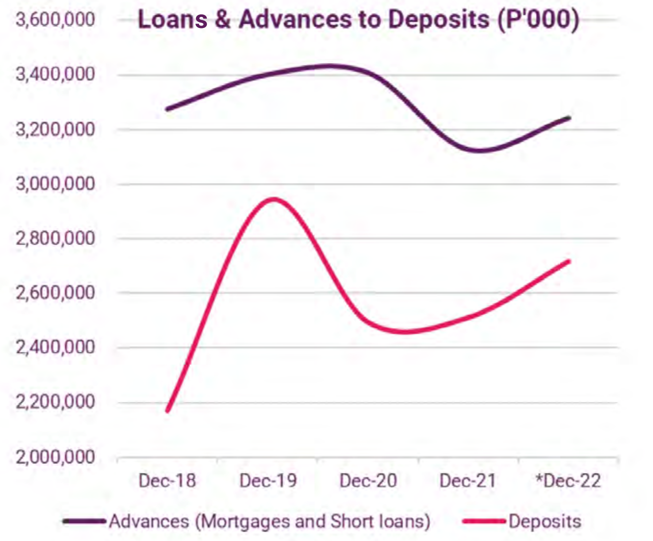
Five-Year Trend

Analysis of Amounts (P'000)	*Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Deposits (Ordinary, Special Savings, Letsibogo, Tlamelo, Lerako. Including Paid Up Savings, Subscription Savings And Indefinite Savings For The Period Beginning 31 Dec 2019)	1,278,486	970,566	975,813	975,813	1,285,317
Fixed Deposits	1,439,260	1,094,396	1,546,431	1,546,431	884,347
All Classes Of Shares	487,453	487,453	487,453	487,453	487,014
Analysis of Account Holdings					
Number Of Mortgage Bond Holders	5,009	5,086	4,398	5,632	5,655
Number Of Short-Term Loan Account Holders	4,318	4,261	5,511	7,195	6,439
Number Of Paid Up Savings Account Holders	44,659	45,201	45,978	46,033	46,114
Number Of Subscription Savings Account Holders	8,195	7,625	7,468	5,848	5,968
Number Of Fixed-Deposit Account Holders	454	362	141	114	137
Number Of Savings Account Holders	67,100	68,707	68,055	125,180	125,951
	129,735	131,242	131,551	190,002	190,264

Analysis of Amounts (P'000)	*Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Loss for the Year	(20,045)	(25,347)	(14,652)	(35,761)	(26,191)
Earnings per share (Thebe)	(4.1)	(5.2)	(3.0)	(7.3)	(5.4)
Dividend per Share	-	-	-	-	-
Net Loans & Advances (Mortgages & Short Loans)	3,241,793	3,179,585	3,941,088	3,462,093	3,274,858
Customer Deposits	2,717,746	2,511,064	2,494,450	2,940,740	2,169,664
Total Assets	3,936,518	3,828,712	4,088,646	4,626,476	4,031,264
Total Liabilities	3,462,533	3,334,682	3,569,269	4,092,447	3,461,913

Five-Year Trend (Continued)





Value Added Statement

Value added statement	*31 Dec 2022 P'000	31 Dec 2021 P'000
Income from lending and banking activities	303,467	271,200
Cost of services	(186,896)	(161,131)
Value created by operations	116,571	110,069
Non-operating income	5,410	5,741
Operating expenditure excluding staff costs and depreciation	(55,552)	(46,426)
	66,429	69,384
Value distributed		
Employees - Salaries and benefits	73,601	74,385
	73,601	74,385
Value retained		
Retained income	**(20,045)**	**(25,347)**
Depreciation & Amortisation	**12,560**	**17,134**
	(7,485)	(8,213)
Total Value Distributed And Retained	66,116	66,172

Visa Capability.

With VISA card, you can transact on our automated teller machines (ATM) anytime, as well as any other bank`s ATM or Point of Sale machine and access your funds anywhere in the world and across borders.

Visit your nearest BBS Bank branch to get your new VISA debit Card.

www.bbs.co.bw

Chairperson's Statement

Mr. Bernard Mzizi
Chairperson

It is a new dawn in so many ways for BBS Bank. Yes, "BBS Bank." Therefore, before I focus on the performance for the year ended 31 December 2022, I would like to begin by highlighting that we were granted a commercial banking licence effective 6th October 2022 making BBS Bank, Botswana's first indigenous commercial bank. We could not have achieved this incredible feat without your support.

You believed in the infinite possibilities that a commercial banking operation would offer beyond those of a building society leading to you supporting the demutualization process at the Special General Meeting of 24th August 2017 held at the Avani Hotel & Conference Centre in Gaborone. We recall that the vote in favour was 99.99%. Your belief in where we were going was very strong.

To improve the performance of the business, the Bank launched an Insurance Agency in June 2022 as part of its long-term strategic intent to diversify its portfolio and offerings. It is expected that the Insurance Agency will make a significant contribution to the Group performance going forward. Therefore, when we refer to "Group" in subsequent paragraphs and statements, please note that we are alluding to the fact that BBS Bank has a subsidiary.

Boards, past and present

It would also be remiss of me and current colleagues on the Board, if I did not thank former Board Members especially from the 20th September 2004 Board Meeting comprising Mr. Pontius Mokgosona who was Board Chairperson, Mr. Derek P.F. Brink, Mr. Nightingale K. Kwele, Mr. Oaitse T. Mapitse, Mrs. Tebogo S. Kesupile, Mr. Large Charumbira, Mr. Seagiso M. Ramatshaba and the then Chief Executive Officer Mr. Pius K. Molefe, when the idea to commercialise the then Botswana Building Society was birthed. This was followed by the work of subsequent Boards and Management teams to convert the business culminating in the issuance of the banking licence by Bank of Botswana. To that end, I would like, once again, to express my gratitude to Bank of Botswana for the confidence it has exhibited in BBS Bank by granting us the licence. We will live up to its expectations.

Further, we have appointed a Managing Director Ms. Pedzani Tafa who joined us on 04 January 2023. She also makes history by being the first Managing Director of Botswana's first home grown-commercial bank. Ms. Tafa is a seasoned commercial banker with over 30 years in banking, having held senior positions with some of the leading banks locally. We are confident that she will take BBS Bank and its brand to greater heights. My colleagues and I are fully committed and energised to take BBS Bank into a bright future.

Let me also take this opportunity to thank the former Managing Director of BBS Limited Mr. Pius Komane Molefe who retired on 01 June 2022 having led the organisation from 01 February 2004 when it was still Botswana Building Society. I would also like to thank him for his vision and leadership over the years, which has led us this far. We wish him well in his future endeavours.

Chairperson's Statement
(Continued)

Government relations

I would also like to thank the Government of the Republic of Botswana, which through the Office of the President, the Ministry of Finance and the Attorney General's Chambers was an excellent partner both in drafting relevant enabling legislation to commercialise the business and presenting it to Parliament for approval. The amended Building Societies and Companies Acts were indeed ultimately signed into law within a reasonable time. It was this support that made it easier to gain the confidence of shareholders and other stakeholders.

> **"We will turn the fortunes of BBS Bank around now that we are able to offer a suite of products and services at the back of investing in the right infrastructure and systems, developing our people etcetera."**

Financial Performance

The Group recorded negative performance for the year ended 31 December 2022, marked by a loss of P20 million. Nonetheless, the Group managed to maintain stronger Liquidity and Capital Adequacy Ratios throughout the year. Detail on key performance indicators is summarised in the Managing Director's Statement.

The financial performance under review, although not what we would want it to be, does not point to an irredeemable situation as I pointed out in my December 2022 update to shareholders. We believe very much in the underlying strength of BBS Bank.

The issuance of the banking license by the Central Bank also eliminated uncertainties which existed in the previous year with respect to the timing of the rollout of the commercial banking services and products. Management has made progress with the acquisition of commercial banking capabilities which will enable the bank rollout and diversification of income streams. Although, the Bank will incur significant transformation expenses in 2023, It is expected that the business performance will improve over time.

We will turn the fortunes of BBS Bank around now that we are able to offer a suite of products and services at the back of investing in the right infrastructure and systems, developing our people etcetera. Products are being rolled out gradually and will have a positive impact on the bottom line. The new dawn that I referred to, fits in well with all the changes that have taken place in recent months. We must now do things differently driven by the right mindset and culture, in order to deliver desired results.

While we should correctly be interested in the share price, I would like to urge you not to be too concerned about it in the short term. Growth of shareholder value is a long-term process. In due course, it will improve based on the earlier mentioned measures we are implementing.

Conclusion

Once again, I would like to thank you for your continued support and understanding. I would also like to appreciate Management and Staff for their focus and commitment to turning the fortunes of BBS Bank around.

I reaffirm that we are well placed to deliver long-term shareholder value which will be a fitting repayment of your decision to put your hard-earned money behind your conviction in BBS Bank.

Thank you,

Bernard Mzizi
Chairperson

Pego ya ga Modulasetilo

Mr. Bernard Mzizi
Modulasetilo

Metlha e fetogile mo bankeng ya BBS. Ee, "Banka ya BBS". Ka jalo, pele ga ke ka bua ka maduo a ngwaga o wetseng ka Sedimonthole 2022, ke eletsa go simolola ka go lo itsise gore re ne ra fiwa teleseletso ya go dira jaaka banka e feletseng go simolola Phalane a le 6, 2022 mme se sa dira gore banka ya BBS e nne yone ya ntlha e tlholegang mono mo ditsong tsa Botswana. Re ne re ka seke re kgone go fitlhelela se kwa ntle ga kemonokeng ya lona.

Lo ne lwa seka lwa belaela gore go nna banka go tlaare re kgontsha go dira di le dintsi go feta jaaka re ne re le mokgatlho. Ka jalo, lo ne lwa ema nokeng ditshutiso tsa phetogo ka palo ya 99.99% kwa phuthegong ya babeeletsi e e neng e tshwerwe ka Phatwe a le 24, 2017 kwa hoteleng ya Avani mo Gaborone. Lo ne lo sena pelaelo epe ya gore go iwa kae.

Go oketsa lotseno, re ne gape ra simolodisa lekalana la go sireletsa dithoto (insurance) ka Seetebosigo 2022. Re solofela fa lekalane le le tla nna le seabe se se golo mo go tokafatseng seemo le boleng jwa kgwebo. Ka jalo, mo pegong e, fa re tsamayang teng re dirisa lefoko "kgwebo" re raya re akaretsa le lekalana la go sireletsa dithoto.

Dikhuduthamaga tsa BBS

Go matshwanedi gore nna le Khuduthamaga ya gompieno re lemoge dikhuduthamaga tsa pele, segolobogolo ya phuthego ya Lwetse a le 20, 2004 e kwa go yone go neng ga tsewa tshwetso ya gore mokgatlho o nne banka, le tse di neng tsa tla morago ga yone mme tsa diragatsa toro e di patilwe ke botsamaisi. Maloko a Khuduthamaga eo e ne e le Rre Pontius Mokgosana yo e neng e le Modulasetilo, Rre Derek P.F. Brink, Rre Nightingale K. Kwele, Rre Oaitse T. Mapitse, Mme Tebogo S. Kesupile, Rre Large Charumbira, Rre Seagiso M. Ramatshaba le mookamedi wa nako eo Rre Pius K. Molefe. Tiro e, e ne ya tsweledisiwa ke dikhuduthamaga le botsamaisi jo bo neng jwa latela go fitlhelela e wela. Ke eletsa gape go leboga Banka ya Botswana go bo e bonye go tshwanela gore e re fe teleseletso ya go dira jaaka banka e feletseng. Ga re na go ba swabisa.

Gape, re na le Mookamedi wa banka o mosha e bong Mme Pedzani Tafa yo o simolotseng tiro ka Firikgong a le 4, 2023. O dira ditso ka go nna ene wa ntlha go okamela banka e e leng ya ntlha go tlholega mono e bile ele motho wa Mme. Pedzani o na le kitso e e tseneletseng ya go tsamaisa banka e a e amuleng mo dingwageng tse di fetang masome a mararo mo maemong a a farologanyeng a magolwane mo dibankeng dingwe mono. Maemo a gagwe a mo dira leloko la Khuduthamaga ya banka ya BBS. E bile, ga gona leloko la le le neng la tlogela boloko mo ngwageng o wetseng ka Sedimonthole a le 31, 2022. Nna le bakaulengwe bame re ikemiseditse go isa banka ya BBS kwa pele.

Pego ya ga Modulasetilo

(Tswelelo)

Ke eletsa go tsaya sebaka se go leboga Mookamedi wa pele wa BBS Limited Rre Pius Komane Molefe yo o neng a tlogela tiro ka Seetebosigo a le 1, 2022 a sena go etelela pele kompone go tswa ka Tlhakole a le 1, 2004 e santse e le mokgatlho. Ke eletsa gape mo go lebogela boeteledipele jwa gagwe, ga mmogo le telebelopele, ka nako e a neng a tshegeditse tiro ya bookamedi. Re mo eleletsa tsotlhe tse di molemo mo isagong ya gagwe.

Tirisanyo le Goromente

Re tshwanetse ra leboga Goromente wa Botswana o ka maphata a one e leng Ofisi ya ga Tautona, Lephatha la Madi ga mmogo le Ofisi ya ga Rramelao Mogolo a neng a re ema nokeng thata ka go kwala melao le go e bega kwa Palamenteng go re re kgone go nna banka. Melao e fetotsweng ya Building Societies le Companies e ne ya re morago ya bewa monwana gore e tsene mo tirisong. Kemonokeng ya ga Goromente e ne ya tiisa moko babeeletsi ba BBS le baemanokeng ba bangwe ba ba botlhokwa.

Re tla busetsa banka ya BBS mo seemong se se ntle ka jaanong re kgona go fa batho ditlamelo tse di ntsi go feta jaaka re ne re kgona re santse re le mokgatlho le ka go tlhabolola ditsamaiso tsa rona le jone bodiredi tota.

Maduo

Kgwebo e ne ya dira tatlhegelo ya P20 million mo ngwageng o o wetseng ka Sedimonthole 2022. Le fa go ntse jalo, kgwebo e tsweletse e na le seelo sa madi se se motia go e tsamaisa ngwaga otlhe. Dintlha ka botlalo tsa maduo di mo pegong ya ga Mookamedi.

Maduo a le fa a sa kgotsofatse, ga a supe seemo se se ka seng se baakanngwe jaaka ke ne tlhalosa mo itekodisong e ke lo e roletseng ka Sedimonthole 2022. Re dumela gore banka ya BBS e mo botsogong jo bo siameng fa go lebilwe boleng jwa dithoto tsa yone ga mmogo le ditso tsa yone.

Go fiwa teseletso ya go dira re le banka e tletseng go ntshitse ketsaetsego e ka tswang e ne le teng ngogola ya gore banka ya BBS e tla simolola go dira leng. Botsamaisi bo setse bo dirile go bonala mo go tsenyeng mo tirisong tse di tlhokwang go diragatsa mananeo a banka. Le fa banka e tla tshwanelwa ke go ntsha madi a bonalang ka 2023 go di duelela, re solofela fa maduo a yone a tla tokafala thata.

Re tla busetsa banka ya BBS mo seemong se se ntle ka jaanong re kgona go fa batho ditlamelo tse di ntsi go feta jaaka re ne re kgona re santse re le mokgatlho le ka go tlhabolola ditsamaiso tsa rona le jone bodiredi tota. Ditlamelo tse di sha di tsweletse ka go rolelwa sechaba ka thulaganyo mme di tla dira gore re kgone go dira dipoelo tse di bonalang. Tshimologo e ke e umakileng kwa ntlheng e nyalana sentle le diphetogo tse di ntseng di diragala mo bankeng mo dikgweding tse re tswang mo go tsone. Re tshwanetse jaanong ra dira dilo ka tsela e e pharologanyo go na le pele le ka di tlhaloganyo tse di batlang katlego.

E re go le matshwanedi gore e bo lo tswelela lo beile leitlho boleng jwa diabe tsa rona, ke eletsa go lo rotloetsa gore lo seka lwa di rekisa. Mme, lo dingangatlele ka gore tlhwatlhwa ya tsone e tla oketsega mo tsamaong ya nako re lebile ditshwetso tse re di diragatsang. Go tsaya nako gore boleng jwa seable bo oketsege

Bokhutlo

Ke wetsa ka go ipoeletsa ke lo leboga go bo lo tsweletse lo re eme nokeng. Botsamaisi le bodiredi bo tshwere ka natla go bona gore banka ya BBS e boa e dira sentle gape.

Re mo seemong se se ntle go busetsa boleng jwa diabe tsa banka ya BBS kwa go dimo, selo se tla nnang tebogo e kgolo mo go lona re lebile ka fa lo dumelang mo bankeng e ka teng.

Ke a leboga,

Bernard Mzizi
Modulasetilo

Managing Director's Statement

Ms. Pedzani Tafa
Managing Director

I am pleased to be part of BBS Bank and this marks my first communication to you. I would like to begin by thanking my predecessor Mr. Pius K. Molefe for the foundation he laid, which will help us take BBS Bank forward.

The Management team and staff are optimistic for the future. We have set ourselves very high goals which I am confident we will achieve.

Although the effects of COVID-19 are still being felt in the economy, the pandemic is now largely out of the way which will help us implement our new corporate strategy without the huge distractions that the pandemic had brought. We have identified several growth engines such as digital platforms, which will also enhance customer experience and convenience. There are other "quick win" products which we have started to roll out and will soon start to bear the desired results.

We have also put in place measures to manage costs without undermining the strategy and the quality of service.

A new agile brand

You would have noticed that BBS Bank now has a new compelling brand complete with fresh values, brand promise, mission and vision statements, a new logo supported by the new corporate primary colour purple and secondary colours being sky blue, emerald green, magenta, sun yellow, black and white.

This marks a complete shift from the previous BBS brand, logo and corporate blue colour which have been in use since 31 January 1983. The old brand served us well but we were of the view that to truly transform, both internally and externally, we should produce a new corporate brand to represent our new journey. While a detailed explainer on the elements of the new brand is carried in the pages of this report, we are convinced that what we have is a brand that will take us forward.

Of course, it will not be able to do so on its own. All of us, will have to live this brand for it to have a positive impact on shareholders, customers and the business itself. I have no doubt that we will be able to do so.

Our new brand promise, "How far can we go?" simply means that we will take every care to listen to the desires of customers in order to meet their expectations. It is a lofty expectation to which we are equal.

Managing Director's Statement (Continued)

Our performance

As the Chairman indicates in his statement, while the financial performance of BBS Bank for the year under review is not great, I would also like to urge you not to be disheartened. We will turn the corner. Nonetheless, the key highlights are as follows:

Statement of financial position

- The balance sheet size improved by 3% from P3.8 billion as at 31 December 2021 to P3.9 billion as at 31 December 2022.
- Net long-term loans and advances remained flat with an increase of 1.89% from P3.126 billion as at 31 December 2021 to P3.186 billion.
- Total expected credit losses stood at P51.5 million compared to P54.3 million as at 31 December 2021.
- Investment with banks improved by 44% from P311.5 million as at 31 December 2021 to P448.0 million.
- Total customer savings and deposits, including paid up and subscription savings increased by 8% from P2.5 billion as at 31 December 2021 to P2.7 billion as at 31 December 2022.
- Borrowings reduced by 11% from P769.9 million as at 31 December 2021 to P691.4 million as at 31 December 2022 because of repayments made during the year. The Group and Company did not acquire new loans during the year.

Statement of Profit or Loss and Other Comprehensive Income

- The Group recorded a loss of P20.0 million for the year ended 31 December 2022 compared to P25.3 million recorded by the Company for the year ended 31 December 2021. BBS Insurance Agency Limited has contributed profit after tax amounting to P1.1 million to the Group performance.
- Total interest income increased by 12% from P252.5 million to P281.7 million for the year ended 31 December 2022 at the back of an increase in the Monetary Policy rate during the year.
- Total Interest expense increased by 14% from P162.7 million to P185.2 million recorded for the year ended 31 December 2022. It is evident that cost of funding remained a challenge throughout the year.
- Net Fee and Other income increased by 17% from P17.1 million to P20.0 million for the year ended 31 December 2022 with a contribution of P2.5 million from BBS Insurance Agency Limited.
- There has been a notable reduction in the operating expenses due to initiatives deployed during the year to contain costs. The Bank continues to be cautious when it comes to spending with priority given to transformation initiatives.

Although there has been a slight improvement, it is evident that the Bank has not fully recovered from the significant loss of business in the previous financial year. Our core product, mortgage loans, remained flat. As a result, interest income and related fee and commission income continued to be under pressure. The liquidity pressures faced by the industry contributed to the continued high cost of funding.

Fortunately, BBS Bank has a strong balance sheet, a healthy customer base, a supportive shareholder base and most importantly a clear strategic plan. All these ingredients stand us in good stead to be a force to reckon with in the not-too-distant future as I indicate below.

Delivering Shareholder Value

Our success will be measured by the value we will deliver to shareholders. I am confident that we will meet the challenge. While we have been present in the Botswana financial services industry since 1971, first as the United Building Society of South Africa followed by Botswana Building Society in 1976 and then BBS Limited in 2017, BBS Bank is the youngest commercial bank in Botswana established on 06 October 2022. It has the challenge of diversifying its product portfolio fast, scaling up services, improving staff morale, delivering shareholder value, reducing the cost of running the business and growing its customer base nationwide. We are implementing plans to achieve these.

Strategic Direction

I am confident that our impact in the commercial banking environment will be felt very strongly especially as we have a strong legacy and healthy customer base upon which to build. There is no doubt in my mind that we are fit for purpose. To this end, we have crafted a solid strategy to help us to be the best managed indigenous commercial bank in Botswana.

> **"Our new brand promise *How far can we go?* simply means that we will take every care to listen to the desires of customers in order to meet their expectations."**

BBS Bank

Managing Director's Statement (Continued)

In the short-term, we are improving our current product offering so that it is more responsive to the market and we will be launching digital capabilities with all functionalities for the convenience of our customers. It is our aim to use the best technology to enable product delivery better than our competitors. We will also be launching agency banking to expand our reach in this vast country.

For the first time in its history, BBS Bank has deployed direct sales agents to sell its products. The intention is to keep increasing their deployment throughout 2023. We believe that this will help us tremendously to bring business in complementing efforts by Branches, the Contact Centre and digital banking. The rest of staff not in the front line is also being empowered and encouraged to help get new business for the bank. This new way of thinking has started to permeate the business. It is all about teamwork regardless of one's official role in the bank.

The right organisational culture

I am also mindful that if all these changes are to bear the right results and within the set time, they must be supported by the right organisational culture. We are working on this through several initiatives. In January 2023, I visited all the Branches to introduce myself to staff and share views on how we can move BBS Bank forward. In February 2023, five weeks after I joined BBS Bank, all employees converged in Gaborone for a town hall meeting so that we could all be on the same script regarding the future direction of the bank. I have been most impressed by their enthusiasm, ideas and ambitious spirit in my interactions with them. We want to create one of Botswana's most admired corporate cultures supported by our new brand comprising a new logo, corporate colours, internal and external brand promises, new corporate mission, vision and values.

Stakeholder engagement including Community Support

During the year under review, we continued to engage with various stakeholders guided by our stakeholder engagement strategy and the various interests represented by these stakeholders in relation to the business. The engagements included updating shareholders on key matters not only at the annual meeting of shareholders but late last year as well through an update by the Board Chairman. In between such interactions, we continued to engage with shareholders as and when they came through. Engagements with other stakeholders such as regulatory authorities, bond holders, customers and other business partners through key officials and platforms of the bank provided useful insight into how we can position BBS Bank as a solid player in the local banking sector.

On community support, BBS Bank has always been fully involved in lending a helping hand throughout the years across the country. However, this has stalled in the last few years pending the bank returning to profitability. In the meantime, we continue to be involved in non "tangible" community initiatives such as empowerment initiatives where we provide insights on investments and savings products that are offered by the bank.

> **For the first time in its history, BBS Bank has deployed direct sales agents to sell its products. The intention is to keep increasing their deployment throughout 2023.**

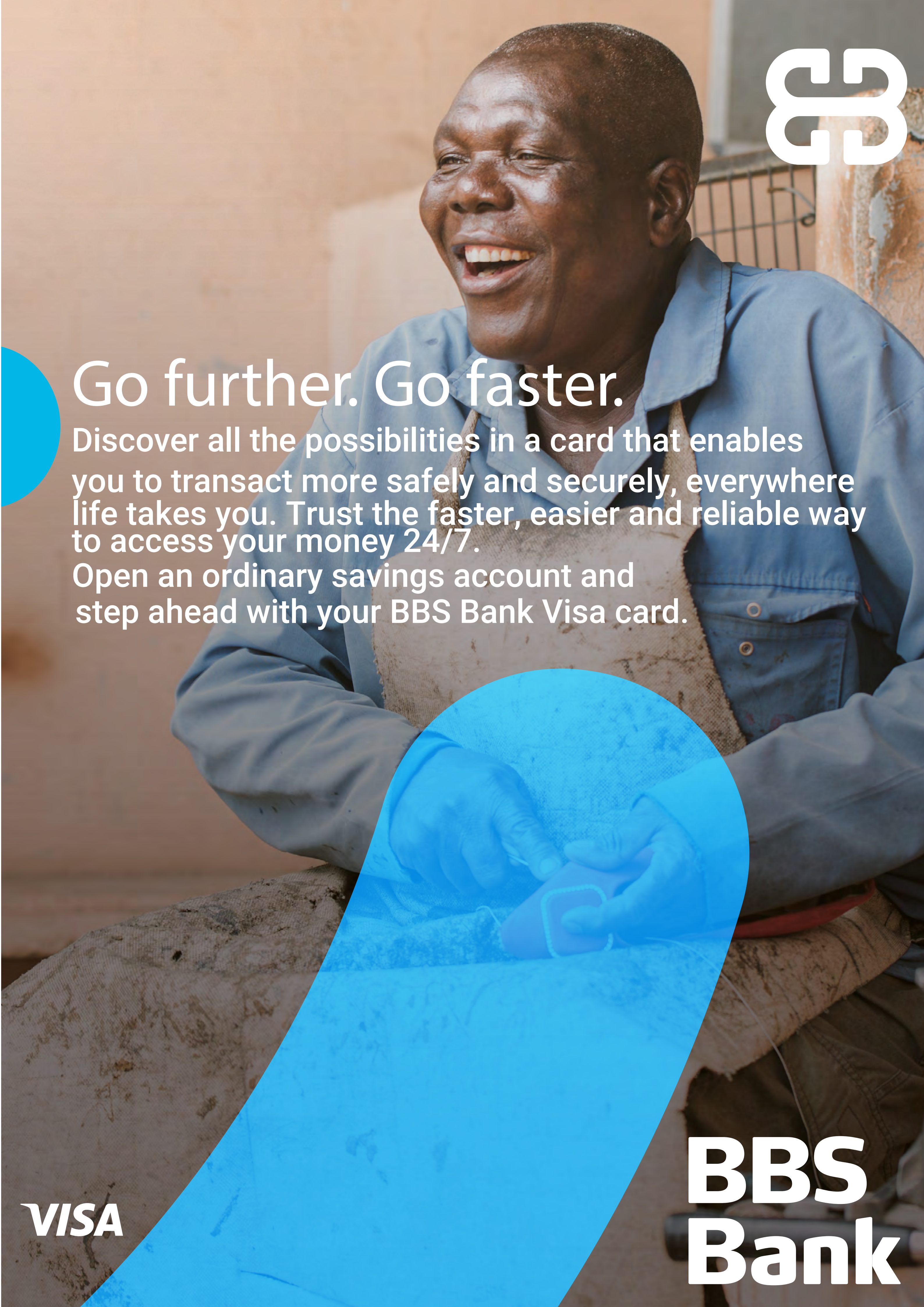
We are also refining our Corporate Social Investment Strategy by broadening its scope of areas of interest, making it fit for purpose for when we will be able to return to investing more tangibly in our communities.

Conclusion

Lastly, I would like to thank the Chairman, Mr. Bernard Mzizi and the Board, not only for their confidence in me but for their support and wise counsel. I would also like to thank shareholders for your commitment to the success of BBS Bank.

Thank you

Pedzani Tafa
Managing Director


Go further. Go faster.
Discover all the possibilities in a card that enables you to transact more safely and securely, everywhere life takes you. Trust the faster, easier and reliable way to access your money 24/7.
Open an ordinary savings account and step ahead with your BBS Bank Visa card.
VISA
BBS Bank

Pego ya ga Mookamedi

Ke itumelela go bo ke le karolo ya banka ya BBS e bile ke setse ke semeletse go thusa go diragatsa diphetogo tse di tsweletseng. Mo polelong yame ya ntlha le lona, ke eletsa go simolola ka go lebogela mookamedi wa pele Rre Pius K. Molefe go bo a beile motheo o tla re thusang go isa banka ya BBS kwa pele.

Ms. Pedzani Tafa
Mookamedi

Re le Bookamedi le Bodiredi re na le tshepho e tletseng mo bokamosong jwa banka ya BBS. Re ipeetse dieelo tse di kwa godimo tse ke dumelang gore re tla di fitlhelela.

Le fa ditlamorago tsa segajaja sa COVID-19 di santse di le teng mo itsholelong, sone se setse se le selo sa maloba. Mo go tla re thusa go diragatsa lenaneo la rona la kgwebo re sa itewe tsebe ke segajaja se. Go na le tse re di lebileng go re thusa go godisa kgwebo jaaka tiriso ya maranyane mo isetsa badirisi ditlamelo tsa rona. Kgato e gape e tla fefosa le go tlhofofatsa ka fa re ba thusang ka teng. Go na le ditlamelo tse dingwe gape tse re setseng re di tsentse mo tirisong jaaka go adimisa madi go sa tlhokege sepe sa peeletso e bile maduo a setse a bonala.

Gape re beile leitlho tiriso ya madi a go tsamaisa kgwebo mme e seng ka tsela e e tla paledisang thulaganyo ya rona ya go e godisa le go rolela badirisi ditlamelo tsa rona.

Lotshwao le Dikano tse disha

Lo ka tswa lo lemogile gore jaanong re na le lotshwalo, telebelopele, maikaelelo le dikao tsa setho sa rona re le banka ya BBS tse di sha. Mmala wa rona o mosha wa konokono ke wa selaole o bo o patiwa ke e e latelang: wa botala jwa loapi, o motala, o moshibidu, o lephutshe, o montsho le o mosweu.

Lotshwao, tebelopele, maikaelelo le dikao tsa setho sa rona di supa phetogo e kgolo ga di tshwantshanngwa le tsa isago ma gareng ga tse dingwe. Mmala wa rona wa konokono wa pele e ne e le wa botala jwa loapi o saleng o tsena mo tirisong go tswa ka Hirikgong a le 31, 1983. Lotshwao lwa rona la pele le tse di neng di tsamaya nalo di dirile tiro ya tsone. Ka jalo, nako e ne e fitlhile gore re dire tse di sha tse re di tlhalosang ka botlalo mo pegong e. Re dumela gore di tla re thusa go gatela pele.

Gape, mo pegong e re arogana le lona polelo e e gapang maikutlo e bile e kaya boleng le ditso tsa banka ya BBS le ko mosepele wa banka o lebileng teng

Pego ya ga Mookamedi
(Tswelelo)

Ee, lotshwalo lo losha lwa banka ya BBS le tse lo di patang ga di kake tsa fetola seemo ka bo tsone. Rona rotlhe re tla tshwanelwa ke go di tsenya mo tirisong gore maduo a bonale. Ke dumela fa re tla kgona.

Sekano sa rona sa Mmogo re ka kgona go le ka he? (How far can we go?) se raya gore re a go tsaya matsapa a go reetsa dikeletso tsa badirisi ba ditlamelo tsa rona gore re kgone go ba kgotsofatsa. Ke seelo se se kwa go dimo fela thata se re se ikemisedisitseng.

Maduo

Jaaka Modulasetilo a tlhalosa mo pegong ya gagwe, maduo a rona a ka tswa a sa itumedise mme ke batla go le tshepisa gore a tla tokafala. Dintlha kgolo tsa one ke tse:

- Tlhwatlhwa ya boleng jwa dithoto tsotlhe tsa banka e oketsegile ka 3% e tswa kwa go P3.8 billion ka Sedimonthole 2021 go ya kwa go P3.9 billion ka Sedimonthole 2022.
- Madi a re a adimileng ba ba rekileng kana go aga dikago a oketsegile fela ka 1.89% a tswa kwa go P3.126 billion ka Sedimonthole 2021 go ya kwa go P3.186 billion ka Sedimonthole 2022.
- Dipeeletso kwa dibankeng di oketsegile ka 44% di tswa kwa go P311.5 million ka Sedimonthole 2021 go ya kwa go P448.0 million ka Sedimonthole 2022.
- Dipolokelo tsotlhe di oketsegile go tswa kwa go P2.5 billion ka Sedimonthole 2021 go ya kwa go P2.7 billion ka Sedimonthole 2022.
- Madi a a adimilweng ke kgwebo go diragatsa mananeo a yone a fokotsegile ka 11% a tswa kwa go P769.9 million ka Sedimonthole 2021 go ya kwa go P691.4 million ka Sedimonthole 2022. Kgwebo ga ya adima madi mo ngwageng o.

Pego ya go dira le go latlhegelwa ke madi ga mmogo le lotseno lo longwe

- Kgwebo e ne ya dira tatlhegelo ya P20 million mo ngwageng o wetseng ka Sedimonthole a le 2022 fa go tshwantshanngwa le tatlhegelo ya P25 million ya ngwaga o wetseng ka Sedimonthole 2021. Lekalana la go sireletsa dithoto le diritse kgwebo poelo ya P1.1 million morago ga go duela lekgetho.
- Morokotso o dirilweng ke kgwebo o oketsegile go tswa kwa go P252 million go ya kwa go P282 million mo ngwageng o wetseng ka Sedimonthole 2022 morago ga go okediwa ga morokotso ke Banka ya Botswana mo tsamaong ya ngwaga.
- Morokotso o duetsweng ke kgwebo o oketsegile go tswa kwa go P163 million go ya kwa go P185.232 million mo ngwageng o wetseng ka Sedimonthole 2022. Go papametse gore go adima madi a go tsamaisa kgwebo go ne go le turu mo ngwageng o.
- Madi a a lopilweng badirising ba ditlamelo fa ba thusiwa a oketsegile go tswa kwa go P17 million go ya kwa go P20 million mo ngwageng o wetseng ka Sedimonthole 2022 mme P2.5 million a one a dirilwe ke lekalana la go sireletsa dithoto.
- Go nnile le phokotsego e bonalang ya madi a a dirisiwang go tsamaisa kgwebo morago ga gore go tsenngwe mo tirisong mananeo a go fokotsa ditshenyegelo. Banka e tsweletse ka go ela tlhoko tiriso ya madi jaaka go diragadiwa diphetogo.

Le fa seemo se tokafetse go se go ka he, go a bonala gore banka ga e ise e tswe mo manokonokong a ditatlhegelo tse di golo tsa ngwaga o fetileng. Sekai, mangmang wa ditlamelo tsa rona e leng madi a a adimiwang go aga kana go reka dikago ga a gola. Ka jalo, madi a re a dirang ka morokotso le dituediso tse dingwe le one ga a oketsega. Letlhoko la madi mo mmarakeng le lone le ne la gakatsa seemo.

Ka lesego, banka ya BBS e na le palo gotlhe ya dithoto e boleng jwa tsone e leng motia, badirisi ba ditlamelo tsa yone ba le bantsi, babeeletsi ba ba e emang nokeng fela thata, le lenaneo la kgwebo le le tsepameng. Dilo tse tsotlhe di re baya mo seemong se se ntle go isa kgwebo pele jaaka ke tlhalosa mo go tse di latelang.

Go direla babeeletse dipoelo

Katlego ya rona e tla bonwa mo go direleng babeeletsi dipoelo. Ke na le tshepho ya gore re tla dira jalo. E re re sale re dira go tswa ka ngwaga wa 1970 re le mokgatlho wa United Building Society of South Africa morago ra nna wa Botswana Building Society ka 1976 le BBS Limited ka 2017, banka ya BBS e nnyane mo dibankeng tsotlhe mo Botswana ka e simolotse go dira ka Phalane a le 6 ka 2022. E na le kgwetlho ya go tsenya mo tirisong ditlamelo tse di sha ka bofefo, go tokafatsa ditsamaiso tsa yone, go tiisa babereki moko le go ba tlhabolola, go direla babeeletse dipoelo, go fokotsa boturu jwa go tsamaisa kgwebo le go godisa palo ya badirisi ba ditlamelo tsa yone. Re semeletse go diragatsa tse tsotlhe.

> **Sekano sa rona sa *Mmogo re ka kgona go le ka he? (How far can we go?)* se raya gore re a go tsaya matsapa a go reetsa dikeletso tsa badirisi ba ditlamelo tsa rona gore re kgone go ba kgotsofatsa.**

Pego ya ga Mookamedi

(Tswelelo)

Lenaneo la kgwebo

Ke na le tshepho e tletseng ya gore re tla nna le seabe se se golo mo mmarakeng wa dibanka mono ka re na le motheo o motia wa badirisi ba ditlamelo tsa rona le ditso. Re eme sentle. Ka jalo, re dule ka lenaneo le le tsopa la kgwebo go re thusa go nna banka e tsamaisiwang sentle e bile e tlholega mono.

Mo bo gautshwaneng, re tla tlhabolola ditlamelo tsa rona gore di kgone go emelelana le dikeletso tsa mmaraka e bile re tlile go simolodisa go banka ka maranyane go tlhofofaletsa badirisi botshelo. Ke maikemisetso a rona go isetsa badirisi ditlamelo ka maranyane botoka go na le jaaka ba re phadisanyang nabo ba dira. Gape, re a go nna le botsalano le dikgwebo tse dingwe lefatshe ka bophara go oketsa mafelo a re ntshang ditlamelo tsa rona kwa go one.

E le lwa ntlha mo ditsong, banka ya BBS e hirile badiri ba ba rekisetsang ditlamelo tsa yone kwa ntle ga mafelo a yone a kgwebo. Maikaelelo ke gore re ba oketse ka palo fa nako e ntse e tsamaya. Re dumela gore ba tla re thusa fela thata go godisa kgwebo ba oketsa maiteko a re ntseng re a dira. Badiri ba bangwe le bone ba a rutuntshiwa le go rotloediwa go ngoka kgwebo. Mogopolo o wa go dira kgwebo o setse o jwelelela mo bankeng. Re tshwanetse ra goga mmogo go sa kgathalesege gore mang o dira tiro e fe mo bankeng.

E le lwa ntlha mo ditsong, banka ya BBS e hirile badiri ba ba rekisetsang ditlamelo tsa yone kwa ntle ga mafelo a yone a kgwebo. Maikaelelo ke gore re ba oketse ka palo fa nako e ntse e tsamaya.

Ngwao e maleba mo bankeng

Ke lemogile gore diphetogo tse tsotlhe di diragale ka nako e beilweng e bile di ntshe maduo a a eletsegang, di tshwanetse tsa engwa nokeng ke mekgwa le ngwao e e maleba mo bankeng. Re tshwere ka natla go bona gore go nna le mowa wa botlhaga, neelano le go tlotlana mo bankeng. Ka Firikgong 2023 ke ne ka etela makalana otlhe a banka ya rona moragonyana fela ke sena go simolola tiro, go ipega le go tsaya maikutlo mo babereking gore re ka isa kgwebo ya rona kwa pele jang. E ne ya re kgwedi e latelang ya Tlhakole 2023 ka biletsa babereki botlhe ba banka mo Gaborone go tla go bua re le mmogo le go dumalana maikaelelo le maikemisetso a go isa kgwebo pele. Ke tiisitswe moko ke matlhagatlhaga, megopolo le go batla go atlega ga bone. Re batla go dira seemo sa tiro se se tla eletsegang Botswana ka bophara se engwe nokeng ke lotshwao lwa rona le le sha le tse di tsamayang natso.

Tirisanyo le bana-le-seabe ga mmogo le Sechaba

Mo ngwageng o sa tswang go feta, re ne ra tswelela ka go arogana megopolo le bana-le-seabe ka go falorogana re setse morago lenanelo la rona le tirisanyo mmogo le karolo e ba nang le yone mo kgwebong ya rona. Dipuisanyo di ne di akaretsa go itsise babeeletsi ka tse di diragalang mo kgwebong e seng fela kwa bokapanong jwa babeeletsi mme le pele ngwaga o fela jaaka Modulasetilo wa Khuduthamaga a ne a ntsha tekodiso ka botsogo jwa banka. Re ne gape ra tswelela ka go buisanya le babeeletsi ka bongwe ka bongwe fa ba ntse ba tla gore bona ka dikgang dipe fela. Bana-le-seabe ba bangwe jaaka makgotla a a tlhokometseng ditsamaiso tsa dikgwebo, ba ba re adimileng madi, badirisi ba ditlamelo tsa rona le ba bangwe fela jalo, re ne ra tswelela ka dikamano le bone re dirisa bagolwane ba banka mme megopolo ya bone ya thusa ka fa re ka tiisang banka ya rona ka teng.

Mo go emeng sechaba nokeng go lebilwe ditlhokego tsa sone ka go farologana, banka ya BBS e tswa kgakala e ema mekgatlho lefatshe ka bophara. Ka maswabi, tirisanyo mmogo e e na le dingwaga e eme ka banka e sa dire dipoelo. Mme ga re a emisa gotlhelele. Le fa re sa ntshe dithuso tse di ka sekeng di supiwe jaaka dikago, re tsaya karolo mo mananeong a a jaaka go rutuntsha sechaba ka tsa dipeeletso le dipolokelo tse di fiwang ke banka ya BBS. Gape re lootsa lenaneo la rona la go beeletsa mo sechabeng ka go atolosa tse re ka di emang nokeng gore fa banka e simolola go dira dipoelo gape, sa rona e bo e le go semelela fela.

Bokhutlo

Kwa bokhutlong, ke eletsa go leboga Modulasetilo Rre Bernard Mzizi le Khuduthamaga tshepho e ba e supileng mo go nna, go nkema nokeng le dikgakololo tsa bone. Ke eletsa gape go leboga banalediabe go bo ba eme banka ya BBS nokeng ba sa oshaoshe le go e eleletsa katlego.

Ke a leboga

Pedzani Tafa
Mookamedi

Insurance

Get a one-stop insurance cover through our in-house company BBS Insurance Agency Limited, reducing intermediary costs and saving you time. That is value for money.

www.bbs.co.bw

BBS Bank

Governance Report

The Board of BBS Bank functions within a clearly defined governance framework, which enables delegation of authority and clear lines of responsibility, while allowing the Board to retain effective control.

Our Governance Structure

The Board is currently supported by three (3) sub-committees, each mandated to provide thorough deliberation, recommendations and specific expert guidance on matters affecting the business and strategic activities. The Board has delegated and entrusted to Executive Management, via the Managing Director, the operational management of the bank, with close monitoring of performance against set targets. The Board has the collective responsibility for the ethical leadership, oversight and long-term success of the bank and to ensure that sound governance practices are embedded across all business operations. The Board is satisfied that it has fulfilled its responsibilities in accordance with the law, the Constitution and the Board Charter.

During the financial year, the Board reviewed the mandate, constitution and effectiveness of its committees namely the Board Finance & Audit Committee, Tender Committee, Nominations & Governance Committee and Human Resource & Remuneration Committee. This resulted in a refreshed mandate and reconstitution of the Committees to Audit Committee, Risk & Compliance Committee and Human Resources, Remuneration & Nominations Committee respectively. Our current governance structure is as follows:

the board regularly considers whether its size, diversity and demographics make it effective

Board Size and Composition

The appointment of Board of Directors is in terms of the Companies Act, the Constitution and the Banking Act. In terms of the BBS Bank Limited Constitution, the minimum number of Directors is five (5) while the maximum number is nine (9), the majority of whom should be independent non-executive Directors. Independence is determined if the board concludes that there is no interest, position, association or relationship which when judged from the perspective of a reasonable and informed third (3rd) party, is likely to influence unduly or cause bias in decision-making in the best interest of the bank. The Board Charter requires that the Board should be constituted in such a way that it can successfully discharge its duties with distinction and the Board regularly considers whether its size, diversity and demographics makes it effective. This is in line with the Bank of Botswana Guidelines which requires BBS bank to have an adequate number of board members, proportionate to the size, complexity, and risk profile of the bank, and an appropriate composition of board members who are capable of exercising judgment independent of the views of management or any external interests. Directors` tenure of office is up to a maximum three (3) years, renewable for another maximum period of two three (3) year periods.

The rotation of Directors is done every three years. A director holds office until his or her resignation, rotation, retirement and disqualification or removal. For the reporting period, the BBS Bank directors are as follows;

- Mr. Bernard Mzizi, Board Chairperson, Independent Non-Executive Director
- Ms. Pedzani Tafa, Managing Director (appointed 4 January 2023)
- Mr. Geoffrey M. Bakwena, Non-Executive Director
- Mr. Victor Ramalepa, Non-Executive Director
- Mr. Duraiswamy Kalyanaraman, Non-Executive Director
- Dr. Vincent B. Mogano, Lead Independent Non-Executive Director (appointed 29 April 2022)
- Ms. Koziba Sedimo, Independent Non-Executive Director (appointed 29 April 2022)
- Mr. Colm W. Patterson, Independent Non-Executive Director (resigned 1 January 2022)
- Mr. Pius Komane Molefe, Managing Director (retired 1 June 2022)

BBS Bank

Our Board Members

Mr. Bernard Mzizi
Chairperson

Ms. Pedzani Tafa
Managing Director

Mr. Geoffrey Bakwena
Director

Governance Report (Continued)

Mr. Kalyanaraman Duraiswamy
Director

Dr. Vincent Mogano
Lead Independent Director

Mr. Victor Ramalepa
Director

Ms. Koziba Moloyi-Sedimo
Director

Governance Report (Continued)

Our Leadership

Bernard Mzizi (51)
Board Chairperson

MSc. Strategic Management, BA (Economics & Statistics), ACI Dealing Certificate

Board Chairperson

Mr. Mzizi was appointed to the BBS Bank board of directors on 30 April 2021. He was Country Head of Corporate Banking for Banc ABC (now Access Bank) from May 2006 to January 2018. Before that he worked for Standard Chartered Bank of Botswana as a Corporate Dealer. He is currently pursuing private entrepreneurship and farming. During the financial year and in addition to Board Chair, Mr. Mzizi also sat as Chairperson of the Nominations and Governance Committee.
Committee Membership: Nominations and Governance Committee (Chair)

Pedzani Tafa (54)
Managing Director

MBA, BA (Env. Sci & Eng.), Dip. Financial Management, Ass. Diploma in Banking

Executive Director

Ms. Tafa was appointed as Managing Director of BBS Bank on 4 January 2023. She is an ex-officio executive director of the bank. She has over 31 years of commercial banking experience, holding various senior leadership positions across many banks in Botswana. Before joining BBS Bank, she was Chief Operations Officer for Botswana Savings Bank, Cluster Head Customer Experience Process & Governance and ultimately Head of Retail Banking for Standard Chartered Bank Botswana and Head Executive Banking for Stanbic Bank Botswana.
Committee Membership: Risk and Compliance Committee

Geoffrey Moamodi Bakwena (51)
Non-Executive Director

MBA, BCom (Accounting), Fellow CSSA, PGDC ERM

Chairperson Board Audit Committee

Mr. Bakwena has served as a non-executive director of BBS Bank since July 2020. He has served at several senior leadership roles across many sectors including Chief Executive Officer of Stockbrokers Botswana, worked for Botswana Stock Exchange, Atilo Capital and currently Dimension Data. He has served as non-executive director for MVA Fund, Botswana Stock Exchange and currently sits on the board of Botswana Privatization Asset Holdings as non-executive director. During the period, Mr. Bakwena also served as Chairperson of the Board Tender Committee.
Committee Membership: Tender Committee (Chair); Finance and Audit Committee

Vincent B. Mogano (51)
Lead Independent Director

MA (Economics), BA (Economics), D.Phil (Research Methodology & Evaluation), MDP

Chairperson, Risk and Compliance Committee

Dr. Mogano was appointed to the board of BBS Bank on 29 April 2022 as an independent non-executive director. He worked as an Economist for Bank of Botswana between 1996-2001, then moved to Stanbic Bank Botswana as Market Risk Manager, a position he held from December 2001 to June 2007, before he became the Treasurer for National Development Bank between 2007 and 2011. He has also worked as Director of Policy Advocacy for Business Botswana and now provides external examination and research moderation with Botswana Open University. Dr. Mogano was the Chairperson of the then Finance and Audit Committee (now Audit Committee), before he became the Chair of the Risk and Compliance Committee.
Committee Membership: Finance and Audit Committee (Chair); HR and Remuneration Committee

Duraiswamy Kalyanaraman (65)
Non-Executive Director

BSc (Physics), CA, Fellow (BICA), Fellow (Institute of Chartered Accountants-India), Chartered Management Accountant, Associate (Institute of Chartered Management Accountants-India), Associate (Indian Institute of Bankers)

Mr. Kalyanaraman is a Chartered Accountant and Auditor by profession, and he is currently Group Finance Manager for Derek Brink Holdings, a Fast Moving Consumer Goods (FMCG) Conglomerate. He was appointed to the Board of BBS Bank on 30 April 2021. He has held several accounting roles and has deep experience in company due Diligence and valuation, Auditing and Finance, Budgeting and Costing, MIS Reporting, IFRS Reporting and Treasury Function. His previous jobs in other entities include being an Audit Supervisor in an audit firm and Chief Accountant for the Pula Holdings Group of Companies (Botswana).
Committee Membership: Finance and Audit Committee; Tender Committee

Victor Ramalepa (46)
Non-Executive Director

LLB, Attorney, Notary Public, Conveyancer, Member (Law Society of Botswana)

Mr. Ramalepa was appointed to the board of BBS Bank on 30 April 2021. He is the Managing Partner of Ramalepa Attorneys, a private law firm that he set up in 2011. He has worked for other private practices such as Sebego Sharma Attorneys and Modimo & Associates before establishing own practice. He has held several board positions including Botswana Bureau of Standards (BoBS) and Botswana Ash (Pty) Ltd.
Committee Membership: HR and Remuneration Committee; Tender Committee

Koziba Moloyi-Sedimo (56)
Independent Non- Executive Director

B.Com, PGD (Human Resource Management), PGD (Administration)

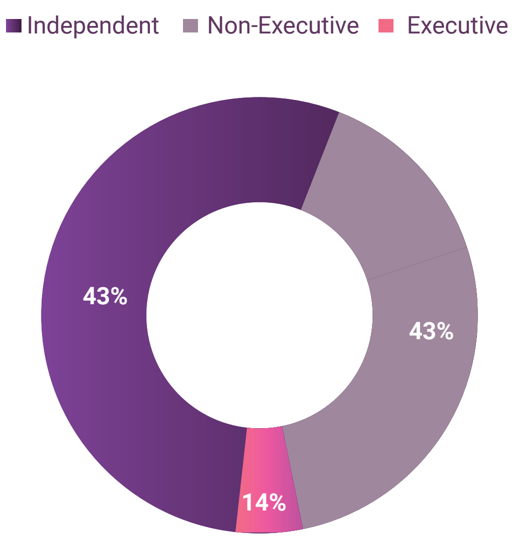
Chairperson, HR, Remuneration and Nominations Committee

Ms. Sedimo was appointed to the board of BBS Bank on 29 April 2022 and she is currently the Chairperson of the Human Resources, Remuneration and Nominations Committee. A human resource practitioner by profession, Ms. Sedimo held several HR positions within Botswana Housing Corporation (BHC)from 1992 until her retirement in 2016 as Industrial Relations Manager. She is currently pursuing private entrepreneurship and a passionate farmer.
Committee Membership: HR and Remuneration Committee (Chair); Finance and Audit Committee.

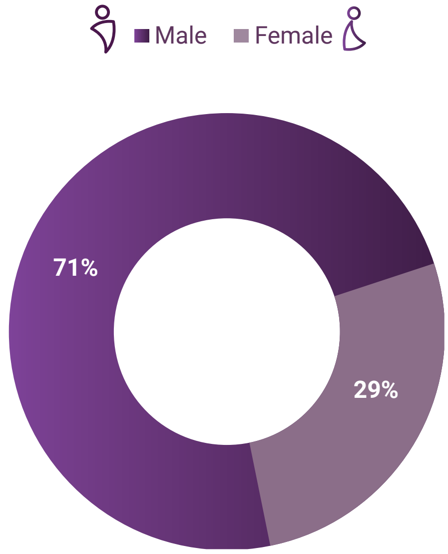
Governance Report (Continued)

Demographics

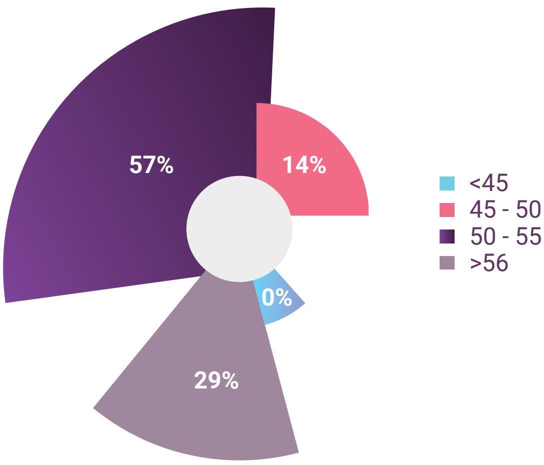
Independence



Gender



Age Profile



Industry Skills

Board Committee Reconstitution and Skills Gap Analysis

The board annually reviews its composition to determine whether it has the right skills and attributes that makes it effective. Following a skills gap analysis, the board made a decision to recruit for additional skills targeting accounting, financial reporting and accounting practice, as well as information technology governance. This has culminated into the proposed non-executive director appointments that are contained in the notice of the 2022 annual general meeting. To align with a new commercial banking mandate and regulatory requirements, the board committees were also reconstituted in December 2022 resulting in the formation of the audit committee, risk and compliance committee and human resource, remuneration and nominations committee respectively. They replaced the erstwhile Finance and Audit Committee, Tender Committee, Nominations and Governance Committee, and lastly Human Resource and Remuneration Committee.

Finance and Audit Committee

Composition	Purpose	Focus Areas
Members V.B. Mogano (Chairperson) D. Kalyanaraman G.M. Bakwena K. Sedimo **Management Attendees** Managing Director Head Finance Head Internal Audit Head Credit Head Banking Head Risk Head Treasury Head Company Secretariat, Legal and Compliance **Invitees** Ernst & Young	• Consider the effectiveness of the combined assurance model • Consider and make recommendation of the appointment, remuneration and rotation of external auditors • Define the policy for non-audit services • Evaluate the going concern assessment and statement of internal control • Consider for remediation accounting treatments, management letter issues and external auditor`s report on financial statements • Approve financial statements for publication to stakeholders • Oversee compliance with regulation, law and company policies • Oversee the effectiveness of risk management, related strategies and policies	• Assessment of accounting treatment and expected credit losses • Evaluating the capacity of the finance and audit functions • Going concern assessment and financial performance intervention • Disposal of non-core assets • Review of the strategy and relevance of assumptions • Consolidated reporting and disclosures following the establishment of insurance agency subsidiary • Approval of budget and strategy • Monthly management review meetings The committee is satisfied that it has fulfilled its mandate for the year, as required by the terms of reference.

Nominations and Governance Committee

Composition	Purpose	Focus Areas
Members B. Mzizi (Chairperson) V.B. Mogano K. Sedimo Managing Director **Management Attendees** Head Company Secretariat, Legal and Compliance Head Finance **Invitees** Grant Thornton* Trending Talent*	• Recommendation for appointment new directors and re-election of directors • Succession planning for board and non-executive directors • Recruitment for managing director, succession planning and performance evaluation • Review training and development needs for directors • Consider and recommend diversity targets in respect of gender or age representation needed on the board, including the proposed number of committees and membership • Consider and recommend to the board the removal of directors for misconduct and other criteria for disqualification or removal from office • Advise the board on the remuneration of non-executive directors	• Succession planning for executive management • Revised remuneration of non-executive directors • Appointment of lead independent director • Board evaluation and effectiveness • Board succession planning • Recruitment of managing director • Skills gap analysis for board members • Recruitment on non-executive directors • Reconstitution of board committees The committee is satisfied that it has fulfilled its mandate for the year, as required by the terms of reference.

**Grant Thornton Consulting Services were invited to deliver a report at the committee`s September 2022 meetings, following engagement to review board fees.*
**Trending Talent was invited to the Committee`s October - November 2022 meeting regarding the recruitment process for the Managing Director.*

Governance Report (Continued)

Human Resources and Remuneration Committee

Composition	Purpose	Focus Areas
Members K. Sedimo (Chairperson) V. Ramalepa V.B. Mogano **Attendees** Managing Director Human Resources Manager Head Company Secretariat, Legal and Compliance Head Finance	• Considering and recommending the remuneration policy for approval • Oversee the effectiveness of the HR function • Oversee the creation and implementation of performance management policies and culture • Review the appropriateness of the employee conditions of service policy and the attraction and retention strategy • Oversee the talent management strategy, employment equity and wellness policies	• Performance management systems • Succession planning for general staff • Retrenchment and re-organisation programme • Review of retrenchment policy • Review of organisational structure • Consideration of staff costs and cost reduction exercise • Review of staff handbook of conditions of service The committee is satisfied that it has fulfilled its mandate for the year, as required by the terms of reference.

Tender Committee

Composition	Purpose	Focus Areas
Members G.M. Bakwena D. Kalyanaraman V. Ramalepa Managing Director **Attendees** Head Operations Head Information Technology Head Finance Head Company Secretariat, Legal and Compliance	• Adjudicate procurement within its delegated mandate • Approve pre-qualification of selective bidders` list • Approve methods of disposal of unserviceable items • Consider and approve the tender and procurement rules	• Review of the Tender and Procurement Rules • Approval and/or recommendation of high-value procurements The committee is satisfied that it has fulfilled its mandate for the year, as required by the terms of reference.

Save for the identified recruitments, the board is satisfied that its composition is representative of an appropriate mix of skill, experience, qualification, diversity and independence that the board and its committees require to function effectively.

Director Appointment, Training and Development

BBS Bank has maintained a formal policy that prescribes a transparent process for the appointment of directors. A skills gap analysis and the board evaluation amongst others, help to identify specific skills that are required, and the HR, Remuneration and Nominations Committee presides over the recruitment and makes recommendations to the Board. The decision by the Board is then submitted for regulatory vetting and approval, before shareholders make a decision to appoint through an ordinary resolution. New directors are subjected to an induction programme comprising of interactions with Management and exposure to the business functions of the bank. Specific corporate governance training is included that is aimed at enhancing directors` understanding and awareness of their duties. The bank maintains a formal director training and development program that exposes directors to ad-hoc training on corporate governance and other specified business areas.

Ethical Leadership and Culture

The Board is the focal point and custodian of ethical conduct and it ensures that an appropriate tone is set at the top. All directors understand their fiduciary duty to act with care and in the best interest of the bank and to exercise their powers for a lawful purpose. High ethical standards and integrity are required from each board member without compromise, and regardless of position. Directors commit to ethical practices in business dealings with the bank and with stakeholders, and the bank demands a continuous commitment to the improvement and maintenance of ethical culture. The BBS Bank Code of Ethics and Conduct Policy, supported by other policies and frameworks, guides directors, employees and other stakeholders on the desired ethical conduct to promote consistent behaviours across all business units and levels of authority. Ethical conduct is required to be exhibited in daily activities and decision making, supplemented by the mindset change programme. A Whistleblowing Policy was approved by the board during the year, and its implementation is underway together with an anonymous tip-off hotline to report unethical behaviour.

All directors are required to disclose matters that may result in perceived or real conflict of interest, including a declaration of outside interests or positions. A declaration form is completed at each board and committee meeting reflecting direct or indirect conflict with respect to matters on the agenda. A director is excused when such matter is considered.

Board Performance Evaluation

The board has adopted a formal process for the evaluation of its performance and effectiveness. The assessment, which is executed through an external consultant considers the effectiveness of the board as a whole, the committees, the Board Chairperson and peer reviews. Areas of concern are identified, and action plans put in place until the deficiencies are fully remediated. The evaluation is conducted once every financial year. The results for the assessment of the 2022 financial year reveal that the areas of improvement are on board leadership and skills diversity targeting finance and information technology. The results are more reflective of the performance as the directors have since had a full year to work together and understand one another. The recruitment of such skills is in progress. The Lead Independent Director will going forward, lead the performance review of the Board Chairperson and confirm that the Chairperson has appropriately fulfilled his or her role as Chairperson and that his or her leadership of the board business is exemplary. The board has noted that whilst the process must remain independent and objective, the board is nonetheless satisfied that the evaluation supports the continued improvement of its performance and effectiveness.

Succession Planning

In terms of the Board Charter, the board is required to have a succession plan in place for its membership, the Board Chairperson, the Managing Director, and other executive directors. This plan should provide for identification, mentorship and development of future candidates. For the 2022 financial year, the board reviewed and sanctioned succession plans for the role of Managing Director and for Executive Management. The plans are reviewed at least once annually to ensure that they remain relevant to the changing needs and circumstances of the bank. In the coming year, the board will implement succession plans for itself and for the role of Board Chairperson which cover both long-term planning and emergency situations.

Rotation of Directors

Consistent with corporate governance practise, the Board Charter subjects all non-executive directors to retirement by rotation and re-election by shareholders at the expiry of their three-year term. The re-election of retiring directors is not automatic and the board oversees that there is staggered rotation to retain valuable skills and maintain continuity of knowledge and experience in the board. For the 2022 financial year, Mr. G.M. Bakwena will retire by rotation in July 2023 and being eligible, has offered himself for re-election. The Bank of Botswana guidelines on corporate governance mandates a non-executive director to retire and to cease holding office upon reaching the age of 75. The Board Charter has been amended accordingly to align with the regulatory requirement.

BOARD LEADERSHIP

Board Chairperson

The Chairperson of the Board is appointed by the Board of Directors amongst the independent non-executive members. The appointment is valid for a period of three (3) years, subject to a continous fit and proper test, and the incumbent is required to retire by rotation. In the 2022 financial year, Mr. Bernard Mzizi continued to serve as the Board Chairperson. The Board is required to assess the continued independence and effectiveness of the Board Chairperson at least once annually. The Board is satisfied that the Board Chairperson continues to remain independent and that no interest, position, association or relationship has been identified which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause biasness in decision-making on the part of the Chairperson.

Lead Independent Director

Pursuant to King IV Recommended Practises and the Corporate Governance Review by Botswana Accountancy Oversight Authority (BAOA) that was performed during the 2022 financial year, the board has since created the position of lead independent director. The role together with its responsibilities are set out in the Board Charter. Following an independence assessment exercise, Dr. Vincent B. Mogano was appointed as the lead independent director for BBS Bank, the position that is held for a period of three (3) and the incumbent retires by rotation. Some of the responsibilities of the lead independent director includes strengthening the role of the Board Chairperson and providing leadership in instances where the Chairperson is deemed to be conflicted, to oversee and lead the performance evaluation of the Board Chairperson and be an avenue of communication for other board members on any issues relating to the Board Chairperson and achieve a balance of power and reinforce accountability mechanisms. The Board Charter seeks to ensure a balance of power and authority at board level, since no one individual has unfettered decision-making powers.

Managing Director

The Manging Director is appointed by the Board and is responsible for leading Executive Management in formulating and establishing business objectives and strategies that are approved by the board. For BBS Bank, the role of Managing Director and Board Chairperson are separate and distinct. The Managing Director provides leadership in the implementation of strategies and policy making and the overall running of the bank. The Managing Director remains accountable to the board on the progress made towards achieving strategic plans and the board, through the HR, Remuneration and Nominations Committee executes a formal evaluation of the performance of the Managing Director against agreed key performance targets at least once annually or at such agreed intervals per the HR Policies. For the 2022 financial year, Mr. Pius K. Molefe retired as Managing Director on 31 May 2022 and Ms. Susan Ntsima (Head of Credit) acted as the interim Managing Director from 1 June 2022 pending substantive recruitment. Ms. Pedzani Tafa is the bank`s Managing Director effective 4 January 2023, following a competitive recruitment process.

Company Secretary

Directors have access to the services of the company secretary, Mr. Dimpho T. Phagane who is neither a member of the board nor associated with any shareholder. The company secretary acts as a centre of guidance to board members, including access to legal and other independent professional advice when required and he is responsible for board administration, liaison with regulators and ensuring compliance with applicable requirements, including corporate governance requirements. The annual board evaluation exercise includes the assessment of the competence, qualification, performance, and effectiveness of the company secretary. The board has concluded that Mr. Phagane is competent to carry out his duties including validation of his qualifications, experience, and knowledge and that he has discharged his responsibilities effectively. The board has also satisfied itself that an arm`s length relationship exists between itself, and the company secretary as required by the Board Charter.

Board and Committee Meeting Attendance

The board and committees are scheduled to meet four (4) times in a financial year, unless where special meetings are required as dictated by the demands of the business. All directors are expected to attend scheduled board and committee meetings. The quorum comprises of a simple majority of directors required to attend. The board is satisfied with the level of attendance of meetings by members, and its discharge of the responsibilities set out in the Board Charter.

Governance Report (Continued)

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 49 meetings, 33 of which were cumulative special meetings, relative to a total of 14 meetings in the 2021 financial year.

Director	Board	Finance & Audit Committee	HR & Remuneration Committee	Nominations & Governance Committee	Tender Committee	Audit Committee	Stakeholder Sessions + Induction + Interviews
B. Mzizi	18/18	-	1/7	11/11	-	-	5/5
V.B. Mogano*	16/18	6/7	6/7	10/11		1/1	5/5
G.B. Bakwena	18/18	7/7	1/7	-	4/4	1/1	-
K. Sedimo**	16/18	6/7	6/7	10/11			4/5
D. Kalyanaraman	18/18	6/7	-	1/11	4/4	1/1	-
V. Ramalepa	17/18	1/7	7/7	2/11	4/4		-
C. Patterson***	-	-	-	-	-	-	-
P.K. Molefe****	3/18	1/7	1/7	1/11	1/4	-	-
S. Ntsima*****	13/18	6/7	4/7	7/11	3/4	1/1	4/5

*V.B. Mogano was appointed to the Board on 29 April 2022.
**K. Sedimo was appointed to the Board on 29 April 2022.
***C. Patterson resigned from the Board on 1 January 2022 and did not attend any meetings.
****P.K. Molefe retired as Managing Director and Executive Director on 31 May 2022.
*****S. Ntsima was appointed Acting Managing Director and Executive Director on 1 June 2022.

Directors' Remuneration Practices During 2022 Financial Year

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. In this regard, a proposal to review the remuneration of non-executive directors is contained in the notice of the annual general meeting for consideration by shareholders. The proposal seeks to do away with a retainer fee and introduce a meeting fee and a capped fee for special engagements. In line with the King IV Code of Corporate Governance, the board seeks to ensure that the remuneration is fair and responsible. The remuneration structure for non-executive directors comprises of a retainer that is payable quarterly in advance, a meeting sitting fee, and directors incidental expenses. The Chairperson of the board is paid a premium on the retainer and meeting fees whilst the Chairpersons of committees receive a premium on the sitting fees only. During the year under review, a total of P1,929,000 was paid towards Board fees compared to P1,229,066.00 in 2021 and P1,297,500.00 in the 2020 financial year. This excludes related or incidental expenses. The structure of the fees for the reporting period is:

Director	Total Fees (2022)	Total Fees (2021)
B. Mzizi	491 000	190 230
V.B. Mogano**	326 500	-
G.M. Bakwena	277 000	203 500
K. Sedimo**	303 000	-
V. Ramalepa	272 500	120 584
D. Kalyanaraman	259 000	114 584
C.W. Patterson	-	120 584
M. L. Mokoto***	-	40 584
P. Siwawa****	-	75 000
J. Kamyuka***	-	84 000
K. N. Monthe***	-	76 000
M. M. Thangwane***	-	75 500
R. Molosiwa***	-	76 000
E. Gonsalves***	-	52 500
P.K. Molefe*	-	-
S. Ntsima*	-	-
Total	**1 929 000**	**1 229 066**

*Executive Directors do not earn board fees as they are employees of the company.

**The non-executive directors were not board members during the prior, hence no comparative data.

***Comparative data for disclosure purposes. The individuals were not directors during the reporting period.

Executive Management Committee

The Managing Director supported by the members of the executive committee, is accountable for the implementation of the strategy and for the performance of the bank. The skills and experience of the members underpin the bank`s ability to deliver its strategy. Executive Management comprises of a diverse and experienced team.

Mr. Rebatho O. Moilwa
Head of Treasury

Mr. Anderson W. Samu
Head of Information Technology

Ms. Hildah Mhaladi
Head of Finance

Ms. Candy Moloi
Head of Operations

Ms. Thelma O'Reilly
Head of Banking

Mr. Langa Phoi
Human Resources Manager

Mr. Dimpho Phagane
Head of Company Secretariat, Legal & Compliance

Ms. Punah Moyo
Head of Projects & Strategy

Ms. Susan Ntsima
Head of Credit

Mr. Kagiso Balopi
Head of Risk

Ms. Pedzani Tafa
Managing Director

Ms. Palesa Semele
Head of Internal Audit

Mr. Sipho Showa
Head of Marketing & Communications

Executive Management

Pedzani Tafa (54)
Managing Director

MBA, BA (Env. Sci & Eng.), Dip. Financial Management, Ass. Diploma in Banking

Ms. Tafa was appointed as Managing Director of BBS Bank on 4 January 2023. She is an ex-officio executive director of the bank. She has over 31 years of commercial banking experience, holding various senior leadership positions across many banks in Botswana. Before joining BBS Bank, she was Chief Operations Officer for Botswana Savings Bank, Cluster Head Customer Experience Process & Governance and ultimately Head of Retail Banking for Standard Chartered Bank Botswana and Head Executive Banking for Stanbic Bank Botswana.

Dimpho Tlamelo Phagane (39)
Head Company Secretariat, Legal and Compliance

MDP, LLB, PGC (ERM), Chart. Sec (CGISA), CoP, ACAMS Certificate, Cert. (Corporate Finance)

Mr. Phagane joined BBS Bank as Head Company Secretary, Legal and Compliance in June 2021. He enjoys 15 years of experience as a governance, risk, legal and compliance professional across many industries. Before joining BBS Bank, he held several positions within Bank Gaborone including Compliance and Governance Manager, Legal and Compliance Manager and Acting Head Risk and Compliance. He was previously Legal Advisor for BIHL Insurance Company, worked for Attorney Generals Chambers and MVA Fund.

Sipho Hector Showa (47)
Head Marketing and Communications

MBA, LLB, BA (Eng), PGD (Education)

Sipho first joined BBS Bank in March 2005-October 2010 as Head of Corporate Affairs with overall responsibility for Board Secretarial, Administration/ Procurement, Human Resources, Communications and Marketing functions. He is an Attorney, Notary Public and Conveyancer of the Courts of Botswana. He has also studied short courses in finance and strategic human resources. He re-joined the bank in November 2011. Sipho has worked for the Botswana Government as a Broadcaster and Journalist, Debswana as Corporate Communications Officer and Botswana Insurance Holdings Limited as Group Director for Corporate Services. He is the Board Chairman of Old Mutual Botswana Short Term Insurance Company and non-executive director for Old Mutual Botswana Insurance Holdings Company. Sipho has also served on the Boards of Mutual and Federal Insurance Company Botswana as Chairman, Masiela Trust Fund and the Botswana National Youth Council.

Susan Ntsima (51)
Head Credit

MSc (Strategic Management), B. Tech (IT), ND (IT), Associate Member (BIBF)

Ms. Ntsima first worked for BBS Bank from January 1993 - March 2007, before joining Absa Bank as Head of Home Loans between April 2007-May 2009. In June 2009, she resumed the role of Head Credit in BBS Bank to date. She is also an executive director of BBS Insurance Agency Limited, a bancassurance subsidiary of the bank.

Governance Report (Continued)

Hildah Mhaladi (38)
Head Finance

ACCA, FCCA (UK), FCA (Botswana), AAT

Ms. Mhaladi is BBS Bank`s Head of Finance since August 2021. She is a Chartered Accountant with over 12 years' experience in Auditing, Accounting and Taxation. Prior to joining the Bank, she was with KPMG Botswana where she started her career as an Audit Assistant in 2009 and progressed through the ranks, holding various roles within the firm until she was promoted to the position of Senior Audit Manager in 2019. While with KPMG Botswana, she was responsible for a large portfolio of Public Interest Entities in Botswana with particular expertise in the financial services sector, including the Central Bank. Apart from her portfolio management responsibilities, she was the Head of Audit and Assistant Qualified Person Responsible for Training (QPRT), working closely with BICA on matters pertaining to training and practical experience. She is a fellow member of the Botswana Institute of Chartered Accountants (FCA) and a Fellow of the Association of Chartered Certified Accountants, UK FCCA.

Palesa Semele (49)
Head of Internal Audit

ACCA, FCCA (UK), FCA(Botswana)

Ms. Semele holds the position of Head of Internal Audit for BBS Bank since August 2012. She is a Fellow member of BICA and of the Institute of Internal Auditors. She was the Head of Internal Audit for Stanbic Bank between August 2008-August 2012, Principal Internal Auditor for Botswana Development Corporation (BDC) from December 2002-July 2008 and Audit Senior for Ernst & Young between 1998-2002. Ms. Semele is also the Chairperson of the Board of Directors of Botswana Investment and Trade Centre (BITC).

Punah Moyo (51)
Head Projects and Strategy

MSc (Strategic Management), FCIS (Corporate Governance and Accounting), Diploma (Acc. and Business Studies, Internal Audit Technician.

Ms. Moyo is the bank`s Head of Projects and Strategy since November 2010. She has over 30 years of banking experience, specifically in areas of audit, assurance, project management and strategy. She has previously held various positions within Barclays bank (now Absa) such as Acting Head of Internal Audit, Senior Audit Manager, Assurance Officer and Personal Banker between 1991-2010. She is an Executive Director of the BBS Insurance Company Limited and a member of the Institute of Chartered Secretaries and Administrators (ICSA).

Thelma O`Reilly (53)
Head of Banking

MSc (Real Estate), BA (Env. Science), Diploma in Banking

Ms. O`Reilly joined BBS Bank in July 2004 as Head of Mortgages and then promoted to Head of Banking in 2009. Before that she worked for Standard Chartered Bank between 2002 - June 2004 as Business Development Manager and Botswana Housing Corporation as Senior Sales Officer from 1994-2002. Ms. O`Reilly is a member of the Botswana Institute of Bankers.

Governance Report (Continued)

Executive Management

Rebatho Moilwa (45)
Head Treasury

MSc (Strategic Management), BA (Economics and Statistics), Associate Diploma in Banking, ACI Dealing Certificate

Mr. Moilwa joined BBS Bank as Head Treasury in May 2021. He has worked for Access Bank formerly BancABC Botswana as Chief Dealer between October 2008-May 2019, Treasury Dealer for Bank Gaborone between July 2007-September 2008. Before that he was with Bank of Baroda as Operations & Forex Officer. He is a member of the Botswana Institute of Bankers and Non-Executive Director and Chairperson of the HR Committee at BR Properties Pty Ltd.

Anderson Samu (53)
Head Information Technology

MSc (Information Technology Management), SLDP, BSc (Applied Business Computing)

Mr. Samu was appointed as the BBS Bank`s Head of Information Technology in March 2023. He previously served as Head of IT for Botswana Life Insurance Limited from October 2016. Before that he was Head of GTIS Operations for Stanbic Bank Botswana from June 2016 - September 2016, having been Head of GTIS (Infrastructure Manager) for Absa Bank between August 2015 - May 2016, IT Manager (Projects) still with Absa Bank from 2009 – 2011. He started his career as IT Technician with Absa Bank in 2000.

Kagiso Balopi (44)
Head Risk

ACCA, FCCA (UK), FCA(Botswana), B. Acc, MDP

Mr. Balopi was appointed as BBS Bank`s Head of Risk in January 2023. He served as the Director Risk for Botswana Savings Bank from January 2022 to December 2022, and previously he served as Head of Risk since February 2019. Prior to that, he worked for NBFIRA from 2009-2019 holding successive positions from Senior Accountant, Finance & Administration Manager, Head of Finance and Head of Risk. Mr. Balopi kick-started his career at Deloitte & Touche, where he served from 2003 – 2008 in the audit department. He was previously a member of the board for Botswana Privatisation Asset Holdings (BPAH), Botswana Medicines Regulatory Authority (BoMRA), also served as a co-opted member of the Finance Risk & Audit Committee at the Botswana Institute for Technology Research & Innovation (BITRI) and is currently Treasurer for BOCHAIP.

Langa Phoi (51)
Human Resources Manager

BA (Social Sciences), ICM Diploma (HRM)

Mr. Phoi joined BBS Bank in August 1998 and rose through the ranks to become the Human Resources Manager in 2006, having previously assumed the position of Senior Human Resources Officer with the Bank. He started his career as Assistant Communications Officer (Human Resources) at Debswana Orapa and Lotlhakane Mines.

Candy Moloi (41)
Head of Operations

BA (Social Sciences), Associate Diploma in Banking

Ms. Moloi started working for BBS Bank in April 2005. She rose through the ranks to become Payments Manager in 2010, Operations Manager in 2014 and progressed to become Head of Operations in 2021. She is an Associate member of the Botswana Institute of Banking and Finance and BBS Staff Pension Fund Board trustee.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BBS Bank

Human Resources Report

Remuneration Policy

The Bank subscribes to the principle of performance-based rewards and recognises that to achieve its strategic business objectives, the Bank must remain competitive in its human capital practices. The remuneration policy includes a pay structure, which is reviewed annually to determine whether to adjust it or otherwise. The following broad areas are covered in the policy –

- Job Evaluation
- Remuneration Structure
- Performance Rewards
- Eligibility
- Performance-based Increases
- Bonus Performance Incentive
- The Performance and Reward Link

The policy also provides for cost-of-living adjustments in remuneration. On the basis of this, salaries for employees were adjusted on the salaries earned as at 31 December 2021. The increases were applied at the rate of 5% across the board. This also enabled the Bank to have better alignment of its levels of remuneration with those prevailing in the market. Alignment with the market was based on the results of the remuneration survey conducted annually by Tsabadiri Consultancy and Korn-Ferry. In accordance with the Policy on salary structure review, the structure was adjusted upwards by 7% to align the increased salaries of staff with the structure. The Board was satisfied that the salary increases were based on Policy and results of a survey by independent consultants.

The Policy provides for a short- term incentive (annual performance bonus), which is payable if the Bank realises a profit. In the year under review, no performance bonus was paid to staff for the prior year, as the Bank had incurred losses.

Future areas of focus for the Bank will be introduction of a long-term incentive, whose key application will be on incentives for leadership and other critical positions. This will be necessary as a measure to attract and retain talent for the Bank and to enable effective and sustained execution of the business strategy.

Principles Underlying the Remuneration and Reward Policy

Pay Structure

The Bank has adopted a ten-band guaranteed pay structure, which is made up of the following –

- basic salary plus employer pension contributions, employer medical aid contributions and social insurances for permanent and pensionable employees
- basic salary plus gratuity, employer medical aid contributions and social insurances for employees employed on fixed-term contract

The grading of jobs is based on the hay method of job evaluation.

Performance-based increases or cost of living adjustments are considered annually and are percentage based. The rate of increase in any year is as determined by the Board.

Short Term Incentive (Annual Performance Bonus)

An annual bonus pool is available if the Bank realises a minimum of 95% of profit after tax. If the Bank achieves 95% of profit, the bonus pool is set at 5% of the profit achieved, which increases on a sliding scale to 10% of profits after tax, if target profit is achieved. Thus, the bonus pool is set at 10% of profits, if target (100%) profit is achieved. Above target profit, the bonus increases by 20% of any amount achieved above the target, up to a maximum of 20% above target.

Top-Down Scheme

The top-down scheme applies to Executive and Middle Management. For this category of employees, bonus is available only if the profit achieved is 95% of target or above, up to a maximum of 20% above target.

The Bottom-Up Scheme

In the Bottom-up scheme, the bonus from the top-down scheme is shared with employees who are not at Executive or Middle Management level. In addition, employees in this lower level share a bonus pool which is equal to 5% of their aggregate guaranteed pay, which increases on a sliding scale to 10% of aggregate guaranteed pay, depending on the percentage of profit achieved from 95% to 100% of target profit. The bonus for this category of employees is available if a profit is achieved.

Individual Performance Bonus

Calculation of individual bonus is determined by job level (band) and individual performance level.

Contract of Employment of the Managing Director

The Managing Director of the Bank is employed on a three-year contract. Either the Bank or the Managing Director may terminate the contract by serving on the other party three (3) month's written notice without giving any reasons therefor, or by payment of three (3) months salary in lieu of notice. In the event of the Managing Director terminating the contract, gratuity accrued to date of termination is payable.

The position has a succession plan, indicating the members of the Executive Management that are earmarked for succession to the role, based on qualifications, competencies and experience. The succession plan is reviewed on an annual basis by the Board.

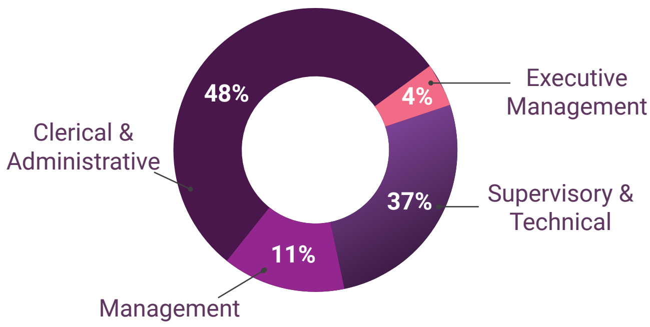
Human Resources Report
(Continued)

Workforce Profile

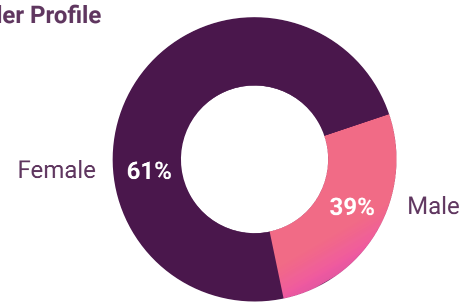
The staff complement stood at 204 with 124 female (61%) staff while 80 are male (39%). The number of permanent and pensionable employees is 193, which is 95% of the workforce, while the remaining 11 are on fixed-term contract. Of the 11 employees on fixed-term contract, 9 are members of the Executive Management while 2 are in middle management and are expatriate employees. The staff complement for the same period in 2021 stood at 209. The reduced number is mainly due to the freeze in recruitment for some positions. We currently have 27 individuals holding Management positions with 9 Executive Management members comprising 6 females (66%) and 3 males (34%), while 18 people hold middle management positions, including 9 females (50%) and 9 males (50%).

In 2022 the Company emerged from a difficult period during which the working environment was hampered by the COVID 19 pandemic. However, while the bank was not spared the impact of the pandemic through infection of some employees during the period, there were no fatalities.

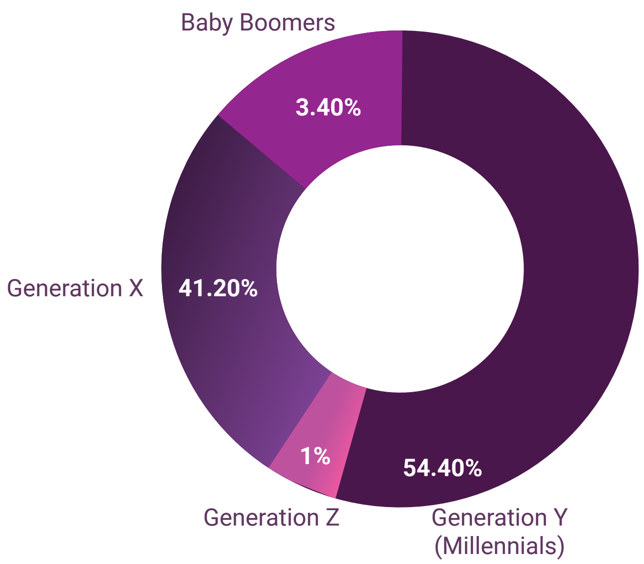
Job Categories



Gender Profile



Workforce Generations



"The Bank plans to align its human capital management practices to the generations that make up the workforce, so that talent is both competent and engaged, as the bank moves faster towards better competitiveness in the banking landscape"

BBS Bank

Learning and Development

Key learning interventions during the period were achieved mainly through the Bank’s partnership with the Botswana Institute of Banking and Finance (BIBF).

The learning interventions were provided through a combination of virtual and face-to-face instructor led training. In addition, 4 employees were sponsored to pursue the Diploma in Banking, which was recently introduced by BIBF. The Bank will continue to build on its partnership with BIBF in the coming year, the aim being to develop a large pool of banking professionals from whom talent will be grown to support the banking strategy.

Training was also provided to staff on the T24 Banking platform targeting the finance, IT and Operations team members.

Key Learning Interventions

- Foundation to sales
- Sales and Marketing Level 2
- Fundamentals of Credit
- Leadership & Management Skills for Middle and Senior
- T24 System Training

Human Resources Report
(Continued)

Sales to Non-Sales Staff Ratio

The Bank intends to focus on maximisation of sales of its existing and new products, to drive revenue. Currently the number of internal sales staff and management only stands at 11 out of 204 employees in the organisation. The aim of the Bank is to improve this ratio so that there is a greater number of staff driving sales, relative to non-sales staff. To this end, there will be redeployment of employees from non- sales areas of the business to front office.

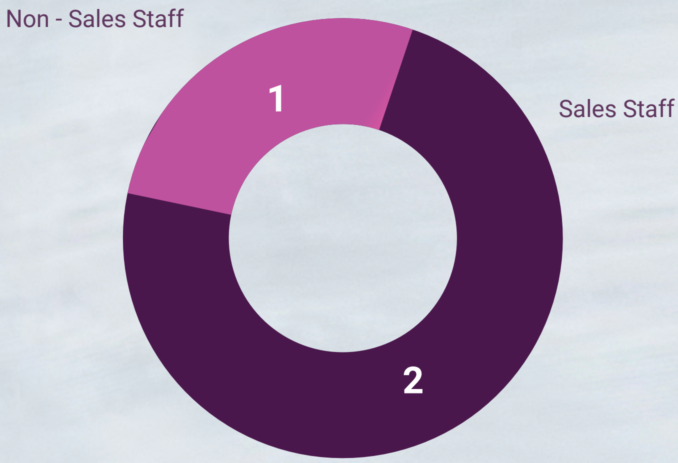
As a key sales initiative, the bank will hire Direct Sales Agents, initially to help bolster the volumes of personal loan sales, to levels that would otherwise not be achievable with internal sales employees only.

Culture of the Organisation

Moving into the new year, Management shall adopt a strategy by which to change the culture of the organisation, driven by Executive Management leadership, to support the business transformation. The strategy will be geared at facilitating smooth transition. It is critical in reducing resistance among staff and achieving the overall strategic objectives of operating as a commercial bank. The objectives of the strategy are to –

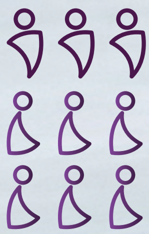
- help manage employee resistance to change and garner buy-in and involvement amongst staff
- minimise productivity loss and provide maximum protection to customer relationships
- build a change competency into the organisation
- improve teamwork for the profitability of the organisation
- create an environment of open, transparent and respectful communication

Future Look of Non-Sales to Sales Staff



Currently the number of internal sales staff and management only stands at

11



out of 204 employees in the organisation.

Risk Management Report

Risk Governance

BBS Bank Limited acknowledges that with the implementation of the strategic plan, challenges will be inevitable and that risk-taking is unavoidable, however, such risks should be taken in accordance with the risk appetite framework, as determined by the Board. The Board assumes overall responsibility of risk management. In carrying out this function, the Audit Committee has been mandated the oversight responsibility for risk management. Subsequent to the 31st December 2022, a Board Committee dedicated to risk and compliance was constituted and is now functional. The risk-related roles and responsibilities previously carried out by the Finance & Audit Committee are now done by the Risk & Compliance Committee. This development aligns the Bank's governance structures to international best practice and good governance standards.

Risk Philosophy and Culture

The Bank's approach to risk management is as follows:

- Balancing risk and return – risks across the bank are treated through an integrated approach, within the risk appetite levels and in accordance with the strategic plan.
- Responsibility – risk-taking is disciplined and focused and further takes into account our social responsibilities and our commitment to customers in balancing risks and returns.
- Accountability – risks are taken within the risk appetite level bearing in mind the available resources.
- Anticipation – The Bank seeks to anticipate material future events and ensures awareness of all known risks and takes necessary actions.
- Competitive advantage – The Bank seeks to achieve competitive advantage through efficient and effective risk management and control.

BBS Bank Limited has adopted an integrated approach to enterprise-wide risk management has been selected by the bank in executing risk management. Risk management has been embraced in the strategic planning, decision-making process, and execution. Ultimately the management of risks and opportunities will lead to value creation for shareholders.

A five-step process has been adopted for risk management, which comprises:

1. Identification of specific risks.
2. Analysis of the potential impact and likelihood of risks.
3. Response to the risks by considering existing controls as well as selecting, prioritising, and implementing appropriate actions.
4. Monitoring the internal and external environment for potential changes to risks and ensure that risk responses continue to operate effectively; and
5. Reporting on the risks and the status of risk responses adopted.

Embedding a culture of risk management across the various departments in the Bank has been a priority, with the transformation from a building society to a commercial bank. Risk assessments have been carried out and mapped into the various departmental risk registers. The Bank has adopted an integrated approach to risk, thus all the risk registers are consolidated and presented to all the staff members. On a monthly basis various Management Committee review specific identified risks, while the Board Risk Committee and the Board review the integrated risks and opportunities on a quarterly interval. At BBS Bank Limited, all staff members are charged with the responsibilities of risk management. The roles and responsibilities relating to risk management for the various structures have been detailed in the Risk Management Framework to provide guidance to all staff members.

Allocation of risk types by Management Committee

OPERATIONAL RISK MANAGEMENT COMMITTEE	GLOBAL CREDIT RISK MANAGEMENT COMMITTEE	ASSET AND LIABILITY MANAGEMENT COMMITTEE
1. Business & Strategic 2. Brand & Reputational 3. Legal 4. Compliance 5. Operational 6. Financial Reporting & Taxation 7. Information Technology 8. People 9. Project 10. Corporate Sustainability	1. Credit	1. Market 2. Liquidity & Funding 3. Capital

Risk Management Report
(Continued)

During the year under review, staff, risk co-ordinators, risk owners and process owners worked towards ensuring that risk management initiatives are implemented and reported to oversight structures as outlined in the Bank's Risk Policy. Line Management, Risk & Compliance functions and Internal Audit have maintained the combined assurance level of the Bank..

Risk Universe

A total of fourteen (14) principal banking risks have been identified and mapped to the various Risk Owners, Management Oversight Committees and Board Committees. Such risks form the risk universe for BBS Bank Limited and guide the staff members in aggregating the risk taxonomy to present a consolidated view of the risks and to allow an effective and efficient treatment strategy.

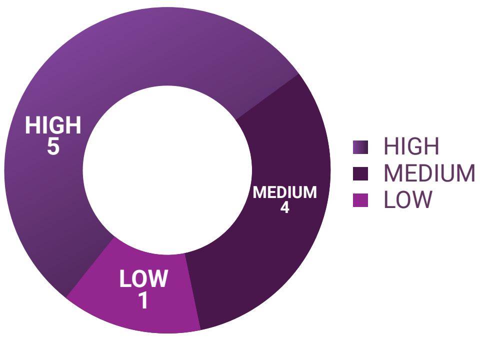
The Board has formulated a risk appetite statement, as a way to determine full commitment and tone towards sound risk management. This statement has been cascaded to the tolerance risk levels across the business units. Risk tolerance include regulatory covenants and other key banking ratios covering liquidity and funding, capital management, loan to deposit ratio, among others. BBS Bank Limited has adopted a prudent risk-taking culture but acknowledges that some risks need to be accepted to attain strategic goals. While the Bank succeeded in operating within the risk tolerance levels in some areas, other key risk indicators were outside the set tolerance levels. The risk appetite thresholds remained an important yard stick for monitoring and managing risk.

Planned Risk Management Activities

The Board, Management and Staff are excited with the recent approval of the commercial banking license by Bank of Botswana. A corporate strategic plan covering the period 2023 – 2027 has been adopted by the Board and commenced implementation subsequent to year end. The thrust of the strategic plan encompasses transformation from the operations of a building society to a new generation commercial bank. The Bank aims at driving shareholder value to attain its full potential. At the inception of the strategic journey, the people, processes, and technology will be aligned to the strategic plan, thereby ensuring congruence. Throughout the transformation, the Board will maintain the principal business risks close, to ensure that the fundamentals of the business are maintained within acceptable risk levels. A snapshot of the risk profile as at year-end is presented below:

Corporate Risk Profile

Corporate Risks



Top Corporate Risks

#	Description	Rating
1	Business/Strategic Risk	High
2	Information Technology Risk	High
3	Market Risk	High
4	Financial Reporting & Taxation Risk	High
5	Governance & Compliance Risk	High
6	Liquidity & Funding Risk	Medium
7	Project Risk	Medium
8	Credit Risk	Medium
9	Capital Risk	Medium
10	Brand & Reputational Risk	Low

In line with the Risk Policy the above risks have been allocated to relevant risk owners and are monitored at through appropriate structures with continuous communication and transparency. After the demutualisation exercise, it has been priority to restore the Bank to profitability in the shortest possible time. The attainment of a commercial banking licence has been instrumental in allowing for the broadening of products offering and diversifying the income base for enhanced value creation and sustainability. Through the implementation of the 2023 – 2027 strategic plan, the Bank aims to foster astute risk management to realize the esteemed strategic outcome.

Focus Areas for 2023

- Review of Risk Appetite Statement in line with the changes in our Business Model
- Close monitoring in managing the Group and Company's Principal Risks in line with the implementation of the transformation into Commercial Banking. This will be done within the Board Approved Strategy of 2023 – 2027
- As the transformation journey unfolds there will be a need for robust management of emerging key risks.
- We will continue to implement measures in strengthening our Information Technology Infrastructure and Network to remain cyber resilient considering the interconnectedness of our systems and as new ones that support our journey into commercial banking are onboarded. We will continue to monitor cyberrisk more broadly. Consideration will be given of whether to have this as a standalone risk.

Financial Statements

BBS Bank Limited
(Registration number BW00001057162)
Consolidated And Separate Financial Statements
for the year ended 31 December 2022

General Information

Company name	BBS Bank Limited (Formerly BBS Limited)		
Country of incorporation and domicile	Botswana		
Nature of business and principal activities	Property finance and the provision of financial and insurance agency services		
Directors		**Appointed**	**Resigned/ Retired**
	Mr. Bernard Mzizi - Chairman		
	Dr. Vincent B. Mogano - Lead Independent Director	29/04/2022	
	Mr. Pius K. Molefe - Managing Director		01/06/2022
	Mrs. Pedzani Tafa - Managing Director	04/01/2023	
	Mr. Geoffrey M. Bakwena		
	Mr. Victor Ramalepa		
	Mr. Colm W. Patterson		01/01/2022
	Mr. Duraiswamy Kalyanaraman		
	Mrs. Koziba N. Moloyi-Sedimo	29/04/2022	
Registered office	Plot 13108-112, Corner Of Lemmenyane Drive and Segoditshane Way, Broadhurst, Gaborone, Botswana		
Business address	Plot 13108-112, Corner Of Lemmenyane Drive and Segoditshane Way, Broadhurst, Gaborone, Botswana		
Postal address	P.O. Box 40029 Gaborone, Botswana		
Bankers	Access Bank Botswana Limited (formerly African Banking Corporation of Botswana Limited) Absa Bank Botswana Limited Standard Chartered Bank Botswana Limited Stanbic Bank Botswana Limited First National Bank of Botswana Limited Bank Gaborone Limited First Capital Bank Limited		
Auditors	Ernst & Young Plot 22 Khama Crescent P.O Box 41015 Gaborone Botswana		
Secretary	Dimpho Phagane		
Company registration number	BW00001057162		

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Directors' Responsibility Statement

The directors are required in terms of the Companies Act of Botswana (CAP 42:01) to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate financial statements give a true and fair view of the Group and Company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and in compliance with the Banking Act (CAP 46:04). The External Auditor is engaged to express an independent opinion on the financial statements.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (CAP 46:04) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and Company and all employees are required to maintain the highest ethical standards in ensuring the Group and Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group and Company is on identifying, assessing, managing and monitoring all known forms of risk across the Group and Company. While operating risk cannot be fully eliminated, the Group and Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by Management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have made an assessment of the ability of the Group and Company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The External auditors are responsible for independently auditing and reporting on the Group and Company's consolidated and separate financial statements. The consolidated and separate financial statements have been examined by the Group and Company's External auditors and their report is presented on pages 60 to 63.

The consolidated and separate financial statements set out on pages 64 to 150, which have been prepared on the going concern basis, were approved by the Board of Directors on 28 March 2023 and were signed on their behalf by:

Approval of financial statements

Mr. Bernard Mzizi
Chairman - Board

Mr. Geoffrey M. Bakwena
Chairman-Audit Committee

Mrs. Pedzani Tata
Managing Director

*Page numbers have been updated to align with the format of the annual report.

Directors' Report

The directors have pleasure in submitting their report on the consolidated and separate financial statements of BBS Bank Limited for the year ended 31 December 2022.

1. Business activities

The Bank was licensed as a commercial bank on 06 October 2022 following a change of name from BBS Limited (BBSL) to BBS Bank Limited (BBSBL) on 06 September 2022 to facilitate the issuance of the banking license.

During the year, BBS Bank Limited ("the company") launched an insurance agency called BBS Insurance Agency Limited whose purpose is to provide insurance agency services and bespoke insurance products to customers. The insurance agency is part of the long-term strategic intent of BBS Bank Limited to diversify its portfolio and offering. The Agency was officially licensed by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) on Wednesday 08 June 2022 and this is the date the company commenced its operations. BBS Insurance Agency Limited is 100% owned by BBS Bank Limited.

2. Financial results and position

The Group and Company's financial results and position are reflected in the financial statements set out on pages 64 to 150.

3. Stated capital

The issued capital of the Group and Company comprised of 487,453 (2021: 487,453) ordinary shares at the end of the year. The detail on shareholding is presented on note 43 of the financial statements.

4. Related parties interests in shares

Mr. Geoffrey M. Bakwena (non-executive director), Mr Victor Ramalepa (non-executive director) and some members of Executive Management are BBS Bank Limited shareholders. The other directors do not hold shares directly or indirectly in the Group and Company.

5. Dividends

No dividends were declared during the current or prior year.

6. Directorate

The directors in office at the date of this report are as follows:

Directors	Office	Designation	Nationality	Changes
Mr. Bernard Mzizi	Chairman	Non-executive	Motswana	
Dr. Vincent B. Mogano	Lead Independent Director	Non-executive	Motswana	Appointed 29 April 2022
Mr. Pius K. Molefe	Managing Director	Executive	Motswana	Retired 01 June 2022
Mrs. Pedzani Tafa	Managing Director	Executive	Motswana	Appointed 04 January 2023
Mr. Geoffrey M. Bakwena	Director	Non-executive	Motswana	
Mr. Victor Ramalepa	Director	Non-executive	Motswana	
Mr. Colm W. Patterson	Director	Non-executive	Irish	Resigned 01 January 2022
Mr. Duraiswamy Kalyanaraman	Director	Non-executive	Indian	
Mrs. Koziba N. Moloyi-Sedimo	Director	Non-executive	Motswana	Appointed 29 April 2022

*Page numbers have been updated to align with the format of the annual report.

Directors' Report

7. Events after the reporting date

Appointment of Managing Director

On 04 January 2023, Mrs Pedzani Tafa assumed office as the Managing Director of BBS Bank Limited.

Staff rationalization programme

Following the issuance of the Banking license in October 2022, the Bank resumed the previously deferred rationalization programme through its first staff consultative meeting held on 11 February 2023. The programme was deferred in 2020 due to various developments including the COVID-19 outbreak and its impact, particularly the economic conditions that affected the financial position of the Bank and the liquidity challenges faced by the Bank, rendering it financially unfeasible to proceed with the programme. The programme may be applied alongside other strategies to enable the acquisition of the required skills for the organisation. On its journey as a commercial bank, the human resource strategy will be to re-train, redeploy, recruit and retrench where applicable. The programme will commence with a voluntary exit programme in April 2023. Should retrenchment be unavoidable, these shall begin with effect from May 2023 and it will be carried out with full consultation having taken place.

As at the reporting date, the separation packages for staff members who will separate with the Company could not be measured reliably as the consultations with the relevant stakeholders, including employees had not been initiated. As at the date of approval of these financial statements, the Company was yet to identify employees who will separate with the Company through the voluntary exit programme.

Independent Auditor's Report

To the Shareholders of BBS Bank Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of BBS Bank Limited and its subsidiaries (the Group) and company set out on pages 64 to 150, which comprise the consolidated and separate statement of financial position as at 31 December 2022, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of BBS Bank Limited as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and Banking Act (CAP 46:04).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with other ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

The Key Audit Matters applies equally to the audit of the consolidated and separate financial statements.

*Page numbers have been updated to align with the format of the annual report.

Resident Partner: Bakani Ndwapi (Managing Partner)
A full list of Partners is available from the office
and the Register of Companies
An indenendent member firm of Ernst & Young Global Limited

Independent Auditor's Report

Key audit matter	How the matter was addressed in the audit
Expected credit losses on mortgage loans and advances to customers (Consolidated andseparate financial statements)	
Mortgage loans and advances to customers comprise a significant portion of the Group and Company's total assets with P3.186 billion (2021: P3.127 billion) representing 81% (2021: 82%) of the Group and Company's total assets. The Group and Company recognises an Expected Credit Losses (ECL allowance) on these mortgage loans and advances to customers. The ECL allowance is calculated using a modelled basis. The preparation of the ECL model is inherently subjective and involves significant management judgement and estimates in determining the inputs into the ECL models, including the use of management quantitative specialists in the design and execution of these models. These judgements and estimates include: • Choosing appropriate models and assumptions for the measurement of ECL • Determining criteria for significant increase in credit risk (SICR) • Establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL • Establishing groups of similar financial assets for the purposes of measuring the ECL; and • The determination of management overlays • Estimation of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters. In the current year, due to the changes in the macro-environment post-Covid and the improved economic conditions, management consequently adjusted their approach when looking into the forward looking information (FLI) and determining FLI scaler. Management specifically relooked at the judgmental inputs into the ECL model including: • The economic forecasts, • The application of historical economic data during economic recovery, • The allocation of probability weightings to the drivers of credit losses and • Determining significant increase in credit risk (SICR) Therefore, we have identified the audit of the expected credit loss (ECL) allowance applied to mortgage loans and advances to customers at the reporting date as a key audit matter due to the extent of auditor judgment required in assessing the above areas of judgement. This necessitated the involvement of our internal economic and quantitative specialists and increased discussions with management during the audit.	Our audit procedures included the following, amongst others: We obtained an understanding of the mortgage loan advances disbursement and collection process. We performed the following procedures, with the assistance of our economic and quantitative specialists: ◊ We evaluated the design and operating effectiveness of controls relevant to the Group's processes over ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. These included: • credit monitoring. • controls over the allocation of assets into stages such as management's monitoring of stage effectiveness. • completeness and accuracy of data. • review and approval of multiple economic scenarios. • model governance, including model monitoring, model validation and review and approval of post model adjustments. ◊ We evaluated the data inputs used in calculating the PD, EAD and LGD parameters by reconciling these inputs to the core banking system (the Group's IT operating system). ◊ We assessed the stage allocation for a sample of loans and individual exposures against the SICR trigger methodologies contained in the Group's modelling documentation. We further evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of financial assets and assessed the reasonableness of staging downgrades applied by management by comparing it to the Group's modelling documentation. ◊ We assessed the design and application of macro-economic forecasts and models adopted by the management expert by assessing the appropriateness of the macro-economic forecasts included in the forward-looking information and scenario weightings by benchmarking these against external evidence and economic data. ◊ We performed an independent ECL quantification analysis on economic data and industry stresses which incorporates independently estimated economic impacts as a result of the relaxation of pandemic restrictions using third party as well as our own data to ascertain the reasonability of the macro economic management adjustments.

Independent Auditor's Report

The disclosures associated with ECL allowance of loans and advances to customers are set out in the consolidated and separate financial statements: Note 1.1 - Key sources of estimation uncertainty Note 10 - Mortgage loans and advances to customers Note 44 - Financial instruments and risk management	◊ For the economic scenarios in collaboration with our economists and modelling specialists, we also challenged the completeness and appropriateness of the macro-economic variables used as inputs to the model. Additionally, we involved economic specialists to assist us in evaluating the reasonableness of the base forecast for a sample of macro-economic variables by benchmarking the forecast to a variety of external sources. ◊ We engaged our modelling specialists to evaluate the ECL model by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design, formulae and algorithms, alternative modelling techniques and recalculating the PD, LGD and EAD parameters and ultimately the provision for impairment. We assessed the adequacy of the disclosures by comparing those to the requirements of IFRS 9 Financial Instruments, in the notes to the consolidated and separate financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 94-page document titled "BBS Bank Limited Consolidated and Separate Financial statements for the year ended 31 December 2022", which includes the General Information, Directors' Responsibility Statement and the Directors' Report which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and Banking Act (CAP: 46:04), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting processes.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group and company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

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

Ernst & Young
Firm of Certified Auditors
Practicing member: Thomas Chitambo (CAP 0011 2023)
Gaborone

31 March 2023

Statements of Financial Position as at 31 December 2022

		Group	Company	
Figures in Pula thousand	Note(s)	2022	2022	2021
Assets				
Cash and cash equivalents	3	41,092	41,092	133,380
Investments with banks	4	448,033	448,033	311,520
Balance due from related company	5	-	1,036	-
Non-current assets held for sale	6	13,832	13,832	-
Other assets	7	29,828	29,722	25,934
Short-term loans and advances to customers	8	56,002	56,002	52,923
Properties-in-possession	9	36,831	36,831	39,871
Mortgage loans and advances to customers	10	3,185,791	3,185,791	3,126,662
Right-of-use assets	11	10,643	10,643	15,319
Intangible assets	12	18,061	18,061	16,150
Property and equipment	13	96,405	96,405	106,953
Investment in subsidiary	14	-	100	-
Total Assets		**3,936,518**	**3,937,548**	**3,828,712**
Liabilities				
Customers' savings and fixed deposit accounts	15	2,292,676	2,295,164	2,084,962
Paid up and subscription savings	16	425,070	425,070	426,102
Borrowings	17	589,193	589,193	667,893
Debentures	18	102,235	102,235	101,974
Lease liabilities	19	15,886	15,886	19,638
Other liabilities	20	36,098	35,787	32,463
Withholding tax	21	1,337	1,338	1,650
Current tax payable	22	38	-	-
Total Liabilities		**3,462,533**	**3,464,673**	**3,334,682**
Equity				
Stated capital - Ordinary shares	23	487,453	487,453	487,453
Retained loss		(13,468)	(14,578)	(106,860)
Statutory reserves	24	-	-	113,437
Total Equity		**473,985**	**472,875**	**494,030**
Total Equity and Liabilities		**3,936,518**	**3,937,548**	**3,828,712**

Statements of Profit or Loss and Other Comprehensive Income

		Group	Company	
Figures in Pula thousand	Note(s)	2022	2022	2021
Interest income	25	281,740	281,740	252,475
Interest expense	26	(185,218)	(185,232)	(162,737)
Net interest income		**96,522**	**96,508**	**89,738**
Fee and commission income	27	21,727	18,677	18,725
Fee and commission expense	27	(1,678)	(1,678)	(1,606)
Net fee and commission income		**20,049**	**16,999**	**17,119**
Revenue		**116,571**	**113,507**	**106,857**
Other operating income	28	5,410	6,408	5,741
Operating income		**121,981**	**119,915**	**112,598**
Expected credit losses	29	4,153	4,153	18,900
Personnel expenses	30	(73,601)	(73,032)	(74,385)
Depreciation and amortisation	31	(12,560)	(12,560)	(17,134)
Other expenses	32	(59,705)	(59,631)	(65,326)
Total expenses		**(141,713)**	**(141,070)**	**(137,945)**
Loss before taxation		**(19,732)**	**(21,155)**	**(25,347)**
Taxation	33	(313)	-	-
Loss for the year		**(20,045)**	**(21,155)**	**(25,347)**
Other comprehensive income		-	-	-
Total comprehensive loss for the year		**(20,045)**	**(21,155)**	**(25,347)**
Earnings per share				
Per share information				
Basic and diluted loss per share (thebe)	35	(4.11)	(4.34)	(5.20)

Statements of Changes in Equity

Figures in Pula thousand	Ordinary shares	Statutory reserves	Retained loss	Total equity
Group				
Balance at 01 January 2021	**487,453**	**113,437**	**(81,513)**	**519,377**
Loss for the year	-	-	(25,347)	(25,347)
Balance at 01 January 2022	**487,453**	**113,437**	**(106,860)**	**494,030**
Loss for the year	-	-	(20,045)	(20,045)
Transfer from statutory reserve	-	(113,437)	113,437	-
Balance at 31 December 2022	**487,453**	**-**	**(13,468)**	**473,985**
Note(s)	23			
Company				
Balance at 01 January 2021	**487,453**	**113,437**	**(81,513)**	**519,377**
Loss for the year	-	-	(25,347)	(25,347)
Balance at 01 January 2022	**487,453**	**113,437**	**(106,860)**	**494,030**
Loss for the year	-	-	(21,155)	(21,155)
Transfer from statutory reserve	-	(113,437)	113,437	-
Balance at 31 December 2022	**487,453**	**-**	**(14,578)**	**472,875**
Note(s)	23	24		

Refer to note 23 of this report for details on the Group and Company's reserves.

Statements of Cash Flows

		Group	Company	
Figures in Pula thousand	Note(s)	2022	2022	2021
Cash flows from operating activities				
Interest receipts		284,081	284,081	256,462
Commission receipts		18,821	15,771	13,601
Interest payments		(171,857)	(171,871)	(180,256)
Commission payments	27	(1,678)	(1,678)	(1,606)
Other operating income		5,410	6,408	5,741
Cash payments to employees and suppliers		(136,740)	(136,095)	(139,411)
Proceeds from sale of properties in possession		11,094	11,094	14,255
Income tax paid		(275)	-	-
Net cash generated from/(used in) operating activities before changes in working capital		**8,856**	**7,710**	**(31,214)**
Changes in:				
Increase in other assets		(4,337)	(4,231)	(1,120)
Increase in balance due from related company		-	(1,036)	-
(Increase)/decrease in short-term loans and advances to customers		(3,069)	(3,069)	775
(Increase)/decrease in mortgage loans and advances to customers		(62,170)	(62,170)	274,615
Increase in customers' savings and fixed deposit accounts		196,078	198,566	43,427
Decrease in paid up and subscription savings		(2,662)	(2,662)	(7,668)
Increase/(decrease) in other liabilities		6,528	6,216	(2,028)
(Decrease)/Increase in withholding tax		(313)	(313)	744
Net cash generated from operating activities		**138,911**	**139,011**	**281,587**
Cash flows from investing activities				
Purchase of property and equipment	13	(11,064)	(11,064)	(9,601)
Purchase of intangible assets	12	(5,581)	(5,581)	(9,012)
Investment in subsidiary		-	(100)	-
New placement of investments with banks		(2,849,559)	(2,849,559)	(2,318,794)
Maturities of investments with banks		2,714,739	2,714,739	2,365,781
Net cash (used in)/from investing activities		**(151,465)**	**(151,565)**	**28,374**
Cash flows used in financing activities				
Proceeds from borrowings	17	-	-	64,470
Repayment of borrowings	17	(78,534)	(78,534)	(312,885)
Payment of lease liabilities	19	(1,200)	(1,200)	(1,253)
Net cash used in financing activities		**(79,734)**	**(79,734)**	**(249,668)**
Total cash movement for the year		**(92,288)**	**(92,288)**	**60,293**
Cash at beginning of the year		133,380	133,380	73,087
Total cash at end of the year	3	**41,092**	**41,092**	**133,380**

Accounting Policies

1. Reporting entity

All companies within the Group are domiciled in Botswana. The address of the Group and Company's registered office is Plot 13108-112 Broadhurst, Gaborone. The Group and Company is primarily involved in property finance and the provision of financial and insurance agency services. These financial statements represent the Group's consolidated and separate financial statements. The consolidated financial statements were approved for issue by the Directors on 28 March 2023.

1.1 Basis of preparation

These consolidated and separate financial statements for the year ended 31 December 2022 have been prepared on the going concern basis in accordance with the framework principles, the recognition and measurement principles of International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of Botswana (CAP 42:01), the Banking Act (CAP 46:04) and the Insurance industry Act of Non-Bank Financial Institutions Regulatory Authority (NBFIRA).

These accounting policies are consistent with those applied in the previous year unless otherwise stated.

Comparative financial information

The comparative financial information considered in these financial statements relate to the audited financial information for the 12 months ended 31 December 2021. The comparative financial information is not consolidated. It reflects the financial position and performance for BBS Bank Limited only.

Functional and presentation currency

The financial statements are presented in Botswana Pula, which is the Group and Company's functional and presentation currency. Except where otherwise indicated, financial information presented in Botswana Pula has been rounded to the nearest thousand.

Key sources of estimation uncertainty

The preparation of the Group and Company's financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group and Company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group and Company's financial statements are disclosed below.

In preparing these financial statements, Management has made judgements, estimates and assumptions that affect the application of the Group and Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis.

Going concern

Management has made an assessment of the Group and Company's ability to continue as a going concern and is satisfied that the Group and Company has the resources to continue in business for the foreseeable future. There are significant judgements involved in the assessment of whether the going concern assumption remains appropriate.

This going concern basis applied presumes that resources will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

Expected credit losses

The measurement of the expected credit loss allowance (ECL) for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;

Accounting Policies

1.1 Basis of preparation (continued)

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- The determination of management overlays.

For explanations of the inputs, assumptions and estimation techniques used in measuring ECL refer to accounting policy note 1.8 and Note 44 - Financial instruments and risk management.

Residual values of property and equipment

Residual values of property and equipment are based on current estimates of the values of these assets at the end of their useful lives. The estimated residual values of the properties have been determined based on available market information.

The residual value of an asset may be less than or equal to the asset's carrying amount. In this case, the asset's depreciation is nil until the carrying amount exceeds the residual value. Depreciation methods, useful lives and residual values are in line with industrial averages and are reviewed at each reporting date and adjusted if necessary.

Collateral valuation

The Group and Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in the form of non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently, every three years in line with the company's credit policy.

Non-financial collateral, such as real estate, are valued at open market values by professional independent valuers who have been appointed as the Group and Company's panel. The panel of valuers is reviewed every three years in line with the Company's credit policy. Refer to Note 44.

Useful life of property and equipment

Judgement is required in determining the assets' useful lives of property and equipment. The estimated useful lives range between three to thirty years. There have been no changes in the estimated useful lives from those applied in the previous financial year. Refer to Note 13 and 31.

Useful life of intangible assets - computer software

Judgement is required in determining the useful lives of intangible assets. The assessment of useful lives is reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

In the current year the useful life of the Temenos (T24) core banking was reviewed and extended by a further year. The objective was to align its remaining useful life to the timing of the planned upgrade in 2024. There has been no change in the estimated useful lives for all other intangible assets from those applied in the previous year. Refer Note 10 and 27. Below is the impact analysis for the T24 system change in estimates.

Accounting Policies

1.1 Basis of preparation (continued)

Statement of Profit or Loss and Other Comprehensive Income	**2022**	**Future Periods**
Amortisation of intangible assets	**P'000**	**P'000**
Before change in useful lives	(4,185)	(923)
After change in useful lives	(2,554)	(2,554)
Decrease in amortisation expense	**(1,631)**	**1,631**
Statement of Financial Position		
Intangible assets		
Carrying amount before change in useful lives	1,844	921
Carrying amount after change in useful lives	3,475	921
Increase in carrying amount of Intangible assets	**1,631**	**-**

Determination of the lease term for lease contracts with renewal and termination options (Group and Company as a lessee)

The Group and Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group and Company have several lease contracts that include extension and termination options. The Group and Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group and Company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

Estimating the incremental borrowing rate

The Group and Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group and Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group and Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group and Company estimates the IBR using observable inputs such as market interest rates when available.

1.2 Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank ("the Company") and its subsidiary (jointly "the Group") as at 31 December 2022.The Bank consolidates a subsidiary when it controls it.

The Company has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use its power over the entity.

The results of the subsidiary are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Investments in subsidiaries are measured at cost less accumulated impairment losses in the company's financial statements.

Adjustments are made when necessary to the consolidated and separate financial statements of the subsidiary to bring their accounting policies in line with those of the Group.

All inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Accounting Policies

1.2 Consolidation (continued)

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the Statements of Changes in Equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the Group.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group and Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investment in subsidiary in the separate financial statements

In the Company's separate financial statements, investment in subsidiary is carried at cost less any accumulated impairment losses. This excludes investments which are held for sale and are consequently accounted for in accordance with IFRS 5 Non¬current Assets Held for Sale and Discontinued Operations.

1.3 Interest

Interest income and expense are recognised in profit or loss using contractual rate which approximates the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Company estimates future cash flows considering all contractual terms of the financial instrument, but not future expected credit losses. The calculation of the effective interest rate includes all fees, transaction costs and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss includes interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis. Interest income and expense are recognised in profit or loss for all interest bearing financial instruments on an accrual basis using the effective interest method.

Amortised cost and gross carrying amount

The amortised cost of a financial asset and a financial liability is the amount at which the asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets, that have become credit impaired subsequent to the initial recognition, interest income is calculated by applying the effective interest to the amortised cost of the financial asset. If the asset is no longer credit- impaired, then the calculation of interest income reverts to the gross basis.

Accounting Policies

1.3 Interest (continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit- adjusted effective interest to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

1.4 Fees and commission

Other fees and commission income, including administration fees of loans and advances, account services, transactional income and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group and Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group and Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are rendered

1.5 Dividends

Dividends are recorded in the Group and Company's financial statements, when declared by the Board of Directors from time to time. Dividends are recognised as a liability in the period in which they are declared by the Directors. Dividends declared are recognised directly in equity.

1.6 Leases

The Group and Company leases a variety of properties. Rental agreements typically include fixed periods over which the items are leased, which are individually negotiated and contain a wide range of different terms and conditions. The Group and Company assesses whether a contract contains a lease at inception of the contract.

The Group and Company defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain:

- no extension periods that the Group and Company will reasonably exercise which would result in the lease term being longer than 12 months; and
- no purchase option in the lease contract

The Group and Company considers the following assets as low value assets: printers, laptops and office furniture. These are assessed as low value assets on the following basis:

- The underlying asset is not highly dependent on, or highly interrelated with, other assets; and
- These assets have individual values that are not significant when compared to our other leased assets.

Group and Company as lessee

At inception, the Group and Company recognises a right-of-use asset (ROUA) and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases and leases of low value assets.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group and Company's incremental borrowing rate.

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

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

Accounting Policies

1.6 Leases (continued)

- the amount expected to be payable by the Group and Company under residual value guarantees;
- the exercise price of purchase options, if the Group and Company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Group and Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item on the Statements of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

The Group and Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Group and Company will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right- of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Lease payments included in the measurement of the right-of-use assets comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Group and Company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group and Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are presented in the following table:

Item	Depreciation method	Average useful life
Leasehold property	Straight line	5 - 10 years or remaining useful life

The residual value, useful life and depreciation method of each asset are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Accounting Policies

1.6 Leases (continued)

Subsequent measurement

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Group and Company as lessor

The Group and Company is a lessor for properties. These leases have an average life of three years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Refer to note 28 for rental income recognised during the year. When a lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the year in which the termination takes place.

1.7 Taxation

Income tax expense represents the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities.

Current taxation

Income tax payable on taxable profits is recognised as an expense in the reporting period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Withholding tax

Withholding tax of 10% is payable on the gross value of dividends paid. The Group and Company also deducts and pays to Botswana Unified Revenue Services, withholding tax on interest earned by customers on savings deposits earned. The new rate became effective 01 July 2021 replacing the previous exemption of the first P7,800.00.

Income Tax Exemption

As at the reporting date, the Company was exempt from income tax as per paragraph (vi), Part I of the Second Schedule of the Income Tax Act (Cap 50:01). The exemption will be waived as soon as the company has satisfied the conditions set out in the exemption certificate.

The subsidiary is however, not exempt from income tax.

1.8 Financial instruments

Financial liabilities are classified at amortised cost or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition or, where appropriate, at the time of reclassification.

Financial assets held at amortised cost

Debt instruments held at amortised cost have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group and Company consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group and Company consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;

Accounting Policies

1.8 Financial instruments (continued)

- Terms that limit the Group and Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Whether financial assets are held at amortised cost depend on the objectives of the business models under which the assets are held. A business model refers to how the Group and Company manages financial assets to generate cash flows.

The Group and Company assesses the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed, and information is provided to Management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group and Company's Management;
- How Managers of the business model are compensated, including whether Management is compensated based on the fair value of assets or the contractual cash flows collected;
- The risks that affect the performance of the business model and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost.

Both hold to collect business model and a hold to collect and sell business model involve holding assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a Group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group and Company's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade date (the date on which the Group and Company commits to purchase or sell the asset). Financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to profit or loss as the inputs become observable, or the transaction matures or is terminated.

Accounting Policies

Subsequent measurement

Financial assets and financial liabilities held at amortised cost are subsequently measured at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in profit or loss.

The Group and Company classifies its financial assets at amortised cost. The Group and Company classifies its financial liabilities at amortised cost.

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group and Company has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group and Company's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively.

When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the carrying amount is recognized in profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are disclosed at amortised cost in the statement of financial position.

For the purpose of the statement of cashflows, cash and cash equivalents consists of cash and short-term deposits as defined above net of outstanding overdrafts as they are considered an integral part of the company's cash management.

Customers' savings and fixed deposit accounts

Amounts due to customers on savings and fixed deposit accounts are initially recorded at the fair value of the consideration received. Such accounts are subsequently measured at amortised cost. All ordinary and special savings accounts are repayable on demand. Fixed deposits are repayable on maturity.

Accounting Policies

1.8 Financial instruments (continued)

Investments with banks

Fixed deposit investments are held with regulated banks that have risk ratings above "non-investment grade - Baa3, per Moody's ratings", with original maturities of one month or more from the acquisition date, that are subject to an insignificant risk of changes in their fair value and are used by the Group and Company in the management of its loan commitments.

Investments with banks are measured at amortised cost in the statement of financial position.

Loans and advances to customers

The Group and Company holds mortgage and short-term loans and advances to customers to collect contractual cash flows. These are initially recorded at the fair value of the amounts disbursed and are subsequently measured at amortised cost. Short term loans are for periods between twelve and sixty months and are secured by paid up and subscription savings.

Other financial liabilities

The Group and Company classifies a financial instrument that it issues as a financial liability in accordance with the substance of the contractual agreement.

The following liabilities are measured at amortised cost using the effective interest rate method;

- Borrowings
- Debentures
- Paid up and subscription savings
- Other liabilities

Collateral repossessed

The Group and Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

Credit impairment

The Group and Company's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgments and estimates in determining expected credit loss include:

- The Group and Company's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment allowances also involves expert credit judgment to be applied by the Credit Risk Management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost.

The Group and Company recognises loss allowances for ECL on the following financial instruments:

- Financial assets that are debt instruments, such as mortgage and short term loans and advances to customers and staff loans;
- Lease receivables;
- and loan commitments issued.

Accounting Policies

1.8 Financial instruments (continued)

No impairment loss is recognised on equity investments.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group and Company expects to receive over the contractual life of the instrument.

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

The Group and Company calculates expected credit losses for all its loans and advances measured at amortised cost at individual level. The population was segmented by product (mortgage loans and related commitments, short term loans and staff loans) and was further segmented by product class being corporate and retail loans. For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. For less material other financial instruments such as Other debtors, the Group and Company has adopted a simplified approach based on historical roll rates or loss rates and forward looking information.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as interest rates. These assumptions are incorporated using the Group and Company's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent' with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using the Graphical Test and Dickey-Fuller Test centred around the Group's most likely forecast of macroeconomic assumptions.

The following tables show the forward-looking assumptions incorporated in the ECL calculation:

Group and Company - 2022

	Government Final Consumption,Total			Gross Fixed Capital Formation, Total			Public Administration and Defence		
	Average Annual Growth %			Average Annual Growth %			Average Annual Growth %		
	NG			NI			RGov		
	Probability 20%	Probability 60%	Probability 20%	Probability 20%	Probability 60%	Probability 20%	Probability 20%	Probability 60%	Probability 20%
	Optimistic	Baseline	Pessimistic	Optimistic	Baseline	Pessimistic	Optimistic	Baseline	Pessimistic
2022	7.47	6.25	4.72	11.71	9.67	7.12	6.68	5.49	4.01
2023	13.23	9.93	5.81	16.17	10.58	3.58	7.89	4.96	1.29
2024	13.15	9.78	5.57	17.88	11.97	4.60	8.16	5.11	1.30
2025	13.36	9.98	5.76	16.92	10.94	3.46	8.13	5.07	1.24
2026	13.35	9.97	5.75	17.16	11.16	3.65	8.14	5.08	1.25

Accounting Policies

1.8 Financial instruments (continued)

Company - 2021

	Government Final Consumption,Total			Gross Fixed Capital Formation, Total			Public Administration and Defence		
	Average Annual Growth %			Average Annual Growth %			Average Annual Growth %		
	NG			NI			RGov		
	Probability 20%	Probability 60%	Probability 20%	Probability 20%	Probability 60%	Probability 20%	Probability 20%	Probability 60%	Probability 20%
	Optimistic	Baseline	Pessimistic	Optimistic	Baseline	Pessimistic	Optimistic	Baseline	Pessimistic
2021	11.07	8.89	6.70	13.21	8.65	4.09	9.77	6.51	3.25
2022	13.25	10.70	8.15	9.74	4.75	(0.25)	7.87	4.05	0.23
2023	14.13	11.52	8.90	14.85	9.58	4.31	9.16	5.23	1.31
2024	13.38	10.73	8.08	14.89	9.58	4.28	9.37	5.42	1.48
2025	13.63	10.98	8.32	15.74	10.40	5.06	9.42	5.45	1.48

The following table outlines the impact of the multiple scenarios on the allowance. The table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to ECL that would have resulted from applying a 100% weighting to the base case scenario.

Group and Company

2022	**Gross**	**ECL**	**Net**	**ECL Coverage ratio**
Loans and advances	**P'000**	**P'000**	**P'000**	
Base scenario	3,237,017	(48,728)	3,188,289	1.51 %
Upside scenario	3,237,017	(41,413)	3,195,604	1.28 %
Adverse scenario	3,237,017	(60,910)	3,176,107	1.88 %

Company

2021	**Gross**	**ECL**	**Net**	**ECL Coverage ratio**
Loans and advances	**P'000**	**P'000**	**P'000**	
Base scenario	3,180,973	(55,218)	3,125,755	1.74 %
Upside scenario	3,180,973	(41,413)	3,139,560	1.30 %
Adverse scenario	3,180,973	(69,022)	3,111,951	2.17 %

*Most economic time series are not stationary when expressed in their original units of measurement and even after deflation or seasonal adjustment they will typically still exhibit trends, cycles, random-walking, and other non-stationary behaviour. Stationarity Validity is required to forecast the macro-economic variables to incorporate forward-looking information into the ECL.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group and Company is exposed to credit risk.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgment. As a practical expedient, the Group and Company may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

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Accounting Policies

1.8 Financial instruments (continued)

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instrument	**Location of expected credit loss**
Financial assets held at amortised cost	Loss allowances: netted against gross carrying value (1)
Loan commitments	Provisions for liabilities and charges (2)
Financial guarantees	Provisions for liabilities and charges (2)

1. Purchased or originated credit impaired assets do not attract an expected credit loss allowance on initial recognition. An expected credit loss allowance will be recognised only if there is an increase in expected credit losses from that considered at initial recognition.

2. Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit losses are recognised as a liability provision.

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the reporting date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses.

If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss allowance is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty.

Accounting Policies

1.8 Financial instruments (continued)

The Group and Company uses the criteria below for determining whether there has been a significant increase in credit risk:

Quantitative factors
- a backstop of 30 days past due.

The following are indicative of significant increase in credit risk (SICR):

Qualitative factors
- if client is restructured.
- if client falls in the watch list or high care list.
- expired accounts with an outstanding balance greater than zero.
- liquidated accounts with an outstanding balance greater than zero.

The triggers underlying significant increase in credit risk (SICR) relates to all factors that will move an account from Stage 1 to Stage 2. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increase in credit risk since initial recognition. SICR can be established based on qualitative triggers or a quantitative assessment. Currently, no measures have been developed to quantitatively measure SICR. In future the Group and Company will use the movement in the PD. This is because the underlying supporting information required to do so is not reasonability available without undue cost. Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by Management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Evidence that a financial asset is credit impaired includes observable data about the following events:
- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment allowance to the extent that the commitment cannot be withdrawn.

Loss allowances against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss allowances held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Accounting Policies

1.8 Financial instruments (continued)

For accounts in Stage 1 and Stage 2 the effective interest is recognised on the gross carrying amount, that is the outstanding exposure excluding the loss allowance. The Expected Credit Losses of the recognised revenue will be provided for as part of credit loss provisions on the statement of financial position and any movements to the provisions would be a gain / loss for bad debt / impairment in profit or loss.

For accounts in Stage 3 the effective interest is recognised on amortised cost, that is the outstanding exposure less the loss allowance. Interest revenue is recognised on what is expected to be paid.

Expert credit judgement

The Group and Company uses the following internal risk mapping to determine the credit quality for loans:

Credit quality description	Default grade mapping	Category
Strong/Low risk	R1	Standard
Satisfactory	R2 to R5	Special mention/Watch list
High risk	R6 to R9	Substandard or Doutful or Loss

The Group and Company's scorecard PDs are mapped to a master scale in order to ensure consistency and ability to compare different ratings. Where no default risk exists R1 to R5 represents normal, healthy exposures while R6 to R9 represent high-risk of defaulted borrowers.

For individually significant financial assets within Stage 3, Global Credit Risk Management Committee will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options.

The difference between the loan carrying amount and the discounted expected future cash flows will result in the Stage 3 credit impairment amount. The future cash flow calculation involves significant judgments and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant but comprise many homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models. Where there is need a management overlay is adjusted to the model results.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in profit or loss with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group and Company would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit- impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

Accounting Policies

1.8 Financial instruments (continued)

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognised, an entity shall assess whether there has been a significant increase in the credit risk of the financial instrument in line with the requirements of IFRS 9 by evaluating,

a) the risk of a default occurring at the reporting date (based on the modified contractual terms); and
b) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group and Company or a third party including government sponsored programmes or a conglomerate of credit institutions.

Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where the Group and Company has granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan allowance. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in profit or loss. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the loss allowance account. The amount of the reversal is recognised in profit or loss.

Loss allowances on purchased or originated credit impaired instruments (POCI)

The Group and Company measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss allowance on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group and Company recognises the change in lifetime expected credit losses arising subsequent to initial recognition in profit or loss and the cumulative change as a loss allowance. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in profit or loss (and as impairment loss where the expected credit losses are greater).

Improvement in credit risk or curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Accounting Policies

1.8 Financial instruments (continued)

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met.

Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where Management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1. A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a period of 3 months is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- A cure event is recognised when an account moves from default to non-default by repaying full payment of arrears under normal or revised terms and conditions.
- The cure rule will be applied to defaulted accounts to avoid multiple defaults, i.e. accounts should be kept in 'watch list/ special mention' (Stage 2) for monitoring for an additional number of consecutive months after a cure event takes place. To prevent relapses, an account is monitored in a worse status before curing. The account cures if the client reduced the capital amount with additional payments.

1.9 Properties in possession

Properties in possession consist of residential and commercial properties repossessed from defaulting mortgage loan bond holders. Such properties are held with the express intention to sell in the short to medium term and are recorded at the lower of cost of repossession and net realisable value. Technically, properties in possession qualify as inventories under IAS 2 - Inventories. Cost of repossession is determined with reference to the outstanding capital balance on the mortgage loan at the date of default. The net realisable value is determined with reference to current market values for comparable properties net of estimated marketing and selling expenses.

The repossessed properties are advertised through property agencies who in turn hold auctions to sell the properties on behalf of the Group and Company.

1.10 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The Group and Company owns the leasehold property.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within other income in profit or loss.

Subsequent cost

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Accounting Policies

1.10 Property and equipment (continued)

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The esitimated useful lives of items of property and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Freehold property	Straight line	50-80 years
Leasehold property	Straight line	the lower of 50 years or remaining lease period
Equipment, furniture and fittings	Straight line	4-5 years
Motor vehicles	Straight line	6-8 years
Computer hardware	Straight line	3-5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Capital work-in-progress represent the amount of expenditure recognised during construction. Assets remain in work in progress until they have become available for use or commissioned, whichever is the earlier date. At that time these assets are transferred to the appropriate class of property and equipment as additions and depreciated.

Repairs and maintenance

Repairs and maintenance costs are recognised in profit or loss during the financial period in which these costs are incurred. The cost of a major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and Company and the renovation replaces an identifiable part of the asset. The costs of major renovations not completed as at the reporting date will be accounted for as part of work in progress until such a time the project is available to be commissioned. Major renovations are depreciated over the remaining useful life of the related asset or until the next major renovations, whichever period is shorter.

Derecognition of property and equipment

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.11 Intangible assets

Software acquired by the Group and Company is stated at cost less accumulated amortisation and accumulated impairment losses. Costs associated with maintaining computer software programmes are recognised in profit or loss as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and Company and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Computer software acquisition costs recognised as intangible assets are amortised using the straight line method over their useful lives from the date on which it is available for use. The estimated useful life assigned to computer software is three to five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively if appropriate.

Accounting Policies

1.11 Intangible assets (continued)

Derecognition of Intangible assets

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

1.12 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). In determining value in use, the estimated future cash flows are discounted using a current market interest rate, which rejects the asset's specific risks. An impairment loss is recognised in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

1.13 Retirement benefits

The Group and Company operates a defined contribution pension fund for all its permanent citizen staff. This fund is registered under the Retirement Funds Act, 2022. The Group and Company contributes to the fund 15% of the pensionable earnings of the members and the employees contribute 7% of their pensionable earnings. The Group and Company's contributions are recognised in profit or loss in the period in which they accrue. Other than regular contributions made in terms of the rules of the fund, the Group and Company does not have any further liability to the fund.

1.14 Related party transactions

All related party transactions are carried out on normal commercial terms and in the ordinary course of business except for staff loans.

1.15 Other employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Employees' entitlement to annual leave and other benefits is recognised when they accrue to employees. An accrual is recognised for the estimated liability for annual leave and other benefits because of services rendered up to the reporting date and is based on undiscounted current wage and salary rates.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group and Company has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably. Other employee benefits liabilities are recorded as part of other liabilities. Refer to note 20.

The Group and Company assists employees in respect of housing, motor vehicles and personal loans at preferential rates as part of their remuneration package. The loans are held as financial assets at amortised cost.

Accounting Policies

1.15 Other employee benefits (continued)

Termination benefits

Employees on contract receive terminal gratuities in accordance with their contracts of employment. An accrual is recognised for the estimated liability towards such employees up to the reporting date. All other employees are members of the Group and Company's pension scheme and do not qualify for such terminal gratuities.

1.16 Other reserves

Statutory reserve

The statutory reserve was created in accordance with the requirement of the Building Societies Act (42:03). At the end of every financial year the Company paid into the statutory reserve fund an amount not less than 10% of its net profits. There was no transfer to statutory reserve in the current nor prior year due to the loss. The Company was required to charge against the statutory reserve fund any net loss remaining to the Company in any year after applying to such loss any undistributed profits brought forward from previous years.

The requirements of the Building Societies Act ceased to apply to the Bank on 6 October 2022 upon being granted the commercial banking license by the central bank. As such, the Building Societies statutory reserve is no longer a requirement. In line with this, the statutory reserve was dissolved and transferred back to retained earnings at the reporting date.

The Company maintains it's accounts in line with the requirements of the new governing act, Banking Act (CAP 46:04) effective 6 October 2023.

1.17 Prepayments and deposits

Prepayments and deposits consist of amounts paid to third parties either in advance or to comply with contractual requirements. These amounts are recognised at the original amount paid and include deposits on lease properties, insurance and license prepayments.

1.18 Stated capital

The Ordinary shares are classified as equity. Stated capital is recognised at the fair value of the consideration received. Incremental costs directly attributable to the issue of Ordinary shares, net of any tax effects, are recognised as a deduction from the initial measurement of the equity instrument.

Ordinary shares are recognised at no par value and classified as 'stated capital' in equity.

1.19 Dividends

Dividends are recognised as a liability in the year in which they are declared.

1.20 Earnings per share

The Group and Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Group and Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential shares which would result in Diluted EPS being different to EPS.

1.21 Loan commitments

The Group and Company recognises a loss allowance on financial committments in line with the requirements of IFRS 9 - Financial Instruments. Refer to note 29 and note 44.

Accounting Policies

1.22 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets and disposal groups are classified as held for distribution to owners when the entity is committed to distribute the asset or disposal group to the owners. This condition is regarded as met only when the distribution is highly probable and the asset is available for immediate distribution in its present condition, provided the distribution is expected to be completed within one year from the classification date.

Non-current assets (or disposal groups) held for sale (distribution to owners) are measured at the lower of their carrying amount and fair value less costs to sell (distribute).

A non-current asset is not depreciated (or amortised) while it is classified as held for sale (held for distribution to owners), or while it is part of a disposal group classified as such.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale (distribution to owners) are recognised in profit or loss.

1.23 Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, the operating results of which components are regularly reviewed by the Group and Companys chief operating decision-makers to make decisions about resources to be allocated and to assess its performance, and for which financial information is available. The Group and Company's identification of its segments and the measurement of segment results are based on the Group and Company's internal reporting to management. The segments are identified according to the nature of their respective products and services and their related target markets.

The segments identified are complemented by the Head Office functions, which provides support in the areas of finance, human resources, governance and compliance, risk management and information technology. Additional information relating to other performance measures is provided.

The Group and Company's identification of its segments and the measurement of segment results are based on the Group and Company's internal management reporting as used for day-to-day decision-making and as reviewed by the chief operating decision-maker, which is the Managing Director, supported by the rest of the Executive Management Committee (EXCO).

Accounting Policies

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year
In the current year, the Group and Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements as both the Company and subsidiary apply the same functional and presentation currency.

Reference to the Conceptual Framework: Amendments to IFRS 3

The amendment makes reference to the Conceptual Framework for Financial Reporting issued in 2018 rather than to the IASC's

Framework for the Preparation and Presentation of Financial Statements. The amendment specifically points to the treatment of liabilities and contingent liabilities acquired as part of a business combination, and which are in the scope of IAS 37 Provisions, Continent Liabilities and Contingent Assets or IFRIC 21 Levies. It clarifies that the requirements of IAS 37 or IFRIC 21 should be applied to provisions, contingent liabilities or levies to determine if a present obligation exists at the Acquisition date. The amendment further clarifies that contingent assets of acquirees share not be recognised as part of the business combination.

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements. The Group and Company did not acquire any liabilities through a business combination during the year under review.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

Accounting Policies

2. New Standards and Interpretations (continued)

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements. The Company did not enter into any transactions that require the application of the amendment during the year under review.

Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements. The Group and Company did not have any onerous contracts during the year under review.

A**nnual Improvement to IFRS Standards 2018-2020: Amendments to IAS 41**

"Taxation" has been removed from the list of cash flows excluded from the fair value determination of biological assets.

The effective date of the Group and Company is for years beginning on or after 01 January 2022.

The Group and Company has adopted the amendment for the first time in the 2022 consolidated and separate financial statements.

The amendment did not have any impact on the Group and Company's financial statements.

2.2 Standards and interpretations not yet effective

The Group and Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group and Company's accounting periods beginning on or after 01 January 2023 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

It is expected that the amendment will not have a material impact on the Group and Company's consolidated and separate financial statements.

Accounting Policies

2. New Standards and Interpretations (continued)

Lease liability in a sale and leaseback (Amendments to IFRS 16, Leases)

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The effective date of the amendment is for years beginning on or after 01 January 2024.

It is unlikely that the amendment will have a material impact on the Group and Company's consolidated and separate financial statements.

Initial application of IFRS 17 and IFRS 9 - Comparative information

A narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9.

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is unlikely that the amendment will have a material impact on the Group and Company's consolidated and separate financial statements.

Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is expected that the amendment will not have a material impact on the Group and Company's consolidated and separate financial statements.

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the consolidated and separate financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is expected that the amendment will not have a material impact on the Group and Company's consolidated and separate financial statements.

Accounting Policies

2. New Standards and Interpretations (continued)

Definition of accounting estimates: Amendments to IAS 8

The definition of accounting estimates was amended so that accounting estimates are now defined as “monetary amounts in consolidated and separate financial statements that are subject to measurement uncertainty.”

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is expected that the amendment will not have a material impact on the Group and Company’s consolidated and separate financial statements.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

It is unlikely that the amendment will have a material impact on the Group and Company’s consolidated and separate financial statements.

IFRS 17 Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The effective date of the standard is for years beginning on or after 01 January 2023.

It is expected that the standard will not have a material impact on the Group and Company’s consolidated and separate financial statements.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

3. Cash and cash equivalents

Cash and cash equivalents consist of:			
Cash on hand	5,958	5,958	5,060
Bank balances	35,134	35,134	128,320
Cash and cash equivalents for the purposes of the statement of cash flows	**41,092**	**41,092**	**133,380**

Interest rates on current, call and money market accounts range from nil to 3% (31 December 2021: nil to 3%) per annum.

All cash balances held by the Group and Company at the reporting date were available for use within a period of twelve months. None was issued as collateral.

4. Investments with banks

Redeemable within one year	448,033	448,033	311,520

Fixed deposits have terms of up to 12 months (31 December 2021: 12 months) at interest rates ranging from 3.55% to 8.56% (31 December 2021:2.50% to 6.05%) per annum.

5. Balance due from related company

Balance due from related company	-	1,036	-

The balance relates to amounts payable with respect to fees charged by BBS Bank Limited for support services offered during the year. The balance is recoverable within a period of twelve months.

6. Non-current assets held for sale

During the year, the Board of directors passed a resolution to dispose of some of the Group and Company's non-core assets.

The sale of the assets is expected to be completed within a year from the reporting date.

The Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and their fair value less costs to sell.

The carrying amount of the non-current assets held for sale is less than the fair values less costs to sell. Depreciation of the assets was discontinued upon their classification as held for sale.

The total for the year is presented below with no liabilities directly associated with the assets:

Non-current assets held for sale			
Land and buildings	13,832	13,832	-

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
7. Other assets			
Financial and non-financial instruments:			
Net staff debtors	13,791	13,791	14,862
Prepayments	12,465	12,463	10,642
Other debtors	3,097	2,993	326
Rent debtors	475	475	104
Total other assets	**29,828**	**29,722**	**25,934**
Reconciliation of staff debtors			
Gross staff debtors	13,984	13,984	15,118
ECL Impairment opening balance	(256)	(256)	(222)
Total ECL impairment allowance movement for the year	63	63	(34)
	13,791	**13,791**	**14,862**

As per IAS 1 - Presentation of financial statements, the Group and Company have revised the presentation of prepayments and other debtors which were historically reported on an aggregate basis. Effective 2022, these are disclosed separately to enhance the disclosure. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position.

Reconciliation of the expected credit loss allowance on loans and advances to staff

		Loss allowance	
Opening balance	**(256)**	**(256)**	**(222)**
Total ECL impairment allowance	**63**	**63**	**(34)**
Impairment allowance movement	66	66	(31)
Interest revenue recognition	(3)	(3)	(3)
Closing balance	**(193)**	**(193)**	**(256)**

ECL per stage is disclosed under note 44.

Lease commitments (as Lessor)
Future minimum lease payments under non–cancellable leases as at 31 December were, as follows:

Within one year	3,610	3,610	5,779
One to five years	6,327	6,327	8,370
	9,937	**9,937**	**14,149**

Staff debtors and rent debtors
At the reporting date the following are receivables:

Within one year	7,032	7,032	6,917
After one year, within five years	7,427	7,427	8,305
	14,459	**14,459**	**15,222**

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

7. Other assets (continued)

Staff debtors

Staff debtors are unsecured loans and advances to staff for purchase of motor vehicles, furniture and other personal effects. The loans are advanced at 50% of Botswana prime lending rate, (31 December 2021: 50% of Botswana prime lending rate). The term of staff loans varies from six months to sixty months.

Collateral

Other debtors includes an amount of USD 88,000 (P1,124,601) issued as collateral for purposes of International settlements for VISA transactions, both issuing and acquiring.

8.Short-term loans and advances to customers

	Group 2022	Company 2022	Company 2021
Gross amounts	56,303	56,303	53,224
Impairment allowance	(301)	(301)	(301)
Carrying amount	**56,002**	**56,002**	**52,923**
Amount to be recovered within one year	26,121	26,121	25,572
Amount to be recovered after one year	29,881	29,881	27,351
	56,002	**56,002**	**52,923**

Reconciliation of expected credit loss allowance on short-term loans

		Loss allowance	
Opening balance	**(301)**	**(301)**	**(804)**
Total ECL impairment allowance	**-**	**-**	**503**
Impairment allowance movement	12	12	521
Interest revenue recognition	(12)	(12)	(18)
Closing balance	**(301)**	**(301)**	**(301)**

ECL per stage is disclosed under note 44.

Short term loans are for periods between twelve and sixty months, bear interest at 9.76% (31 December 2021: 8.25%) per annum and are secured by Paid up savings, Subscription savings, Customer savings and Fixed deposits.

9. Properties-in-possession

	Group 2022	Company 2022	Company 2021
Balance at beginning of the year	39,871	39,871	32,840
Repossessions during the year	9,055	9,055	22,671
De-recognition of properties in possession	(12,095)	(12,095)	(15,640)
Balance at the end of the year	**36,831**	**36,831**	**39,871**
Number of properties in possession - residential and commercial	41	41	47

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

9. Properties-in-possession (continued)

The properties-in-possession are premises the Group and Company has repossessed. These properties are held with the express intention to sell in the short to medium term and are recorded at the lower of cost of repossession and net realisable value. The Group and Company expects to recover the balance within a period of five years depending on expression of interest by the market.

The Group and Company have revised the presentation of this disclosure to reflect the cost derecognised from Properties in possession which was historically reported as a breakdown between proceeds and loss on disposal. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position or statement of profit or loss.

10. Mortgage loans and advances to customers

	Group 2022	Company 2022	Company 2021
Mortgage loans and advances to customers	3,237,017	3,237,017	3,180,973
Impairment allowance for the year	(51,226)	(51,226)	(54,311)
Carrying amount	**3,185,791**	**3,185,791**	**3,126,662**
Amount to be recovered within one year	481,074	481,074	439,171
Amount to be recovered after one year	2,704,717	2,704,717	2,687,491
	3,185,791	**3,185,791**	**3,126,662**

The Group and Company has revised the presentation of this disclosure to include staff mortgage fair value as part of mortgage loans and advances to customers to enhance the disclosure. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position.

a) Reconciliation of expected credit loss allowance (ECL) on mortgage loans and advances to customers.

Group and Company	**Loss allowance**	
	2022 P'000	**2021 P'000**
Balance as at beginning of year	**(54,311)**	**(78,648)**
Total ECL impairment allowance	**3,085**	**24,337**
Impairment allowance	7,140	28,182
Interest revenue recognition	(4,055)	(3,845)
Balance at year end	**(51,226)**	**(54,311)**

ECL per stage is disclosed under note 44.

Mortgage loans are granted up to a maximum period of thirty years. The gross loans and advances with a variable rate amount to P3,246 billion (2021: P 3,192 billion) and P12 million (2021: P 15 million) are at fixed rates of interest.

Interest is charged at rates between 6.26% and 13.26% (2021: 4.75% and 13.30%) per annum and loans are secured by a first mortgage bond against the financed property. The rate of interest on staff mortgage loans is 3.4% (2021: 2.6%) per annum. The group lends up to 90% of the market value of the property being financed.

Notes to the Consolidated And Separate Financial Statements

11.Right-of-use assets

Group and Company

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
Right-of-use assets	19,824	(9,181)	10,643	22,376	(7,057)	15,319

Reconciliation of right-of-use assets

Group and Company - 2022

	Opening balance	Remeasurement of ROU**	Depreciation	Total
	P'000	P'000	P'000	P'000
Right-of-use assets	15,319	(2,552)	(2,124)	10,643

** The remeasurement resulted from the revision of contractual payments of some leases the Group and Company has entered into. The related lease liability has been remeasured by discounting the revised lease payments using the initial discount rate and this resulted in the reduced Right of Use Asset at the reporting date. Right-of-use assets are held by the Group and Company for use for a period more than twelve months.

Reconciliation of right-of-use assets

Company - 2021

	Opening balance	Additions	Termination of lease	Remeasurement of ROU**	Depreciation	Total
	P'000	P'000		P'000	P'000	P'000
Right-of-use assets	18,427	892	(898)	(796)	(2,306)	15,319

During the year, the Group and Company entered into new leases of low value items (printers). Rental expense incurred on these is recognised in profit or loss over the lease term on a straight line basis.

The following amounts are amounts recognised in profit or loss:

	Group	Company	
	2022	**2022**	**2021**
	P'000	**P'000**	**P'000**
Depreciation expense of right-of -use assets	2,124	2,124	2,306
Interest expense on lease liabilities	1,304	1,304	1,528
Expense relating to leases of low-value-assets (included in other expenses)	686	686	591
Total amount recognised in profit or loss	**4,114**	**4,114**	**4,425**

The Group and Company had total cash outflows for leases amounting to P1,886 million (including leases of low value items) (2021: P 1,253 million).

The Group and Company did not have any non-cash additions to right-of-use assets in the current year (2021: P 0.892 million).

Notes to the Consolidated And Separate Financial Statements

12.Intangible assets

Group and Company

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
Computer softwares - other	50,941	(40,519)	10,422	50,145	(43,007)	7,138
Work-in-progress	7,639	-	7,639	9,012	-	9,012
Total	**58,580**	**(40,519)**	**18,061**	**59,157**	**(43,007)**	**16,150**

Reconciliation of intangible assets

Group and Company - 2022

	Opening balance	Additions	Transfers from work in progress	Adjustments**	Amortisation	Total
Computer softwares - other	7,138	-	6,954	(616)	(3,054)	10,422
Work-in-progress	9,012	5,581	(6,954)	-	-	7,639
	16,150	**5,581**	**-**	**(616)**	**(3,054)**	**18,061**

**This relates to write off of intangible assets which were no longer generating economic benefits for the Company.

Reconciliation of intangible assets

Company - 2021

	Opening balance	Additions	Amortisation	Total
Computer softwares - other	13,963	-	(6,825)	7,138
Work-in-progress	-	9,012	-	9,012
	13,963	**9,012**	**(6,825)**	**16,150**

The useful life of intangible assets is 3 - 5 years.

Included in intangibles balance cost above is P14.5 million (2021: P 20.6 million) relating to fully amortized assets which are still in use.

Work in progress relates to the ongoing projects for digital banking platforms necessary to create capabilities fit for a commercial bank.

Intangible assets are held by the Group and Company for use for a period more than twelve months. Intangible assets held by the Group and Company are not internally generated.

Notes to the Consolidated And Separate Financial Statements

13. Property and equipment

Group and Company

	2022			2021		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
Freehold and leasehold property	82,811	(18,734)	64,077	94,279	(17,878)	76,401
Equipment, furniture and fittings	48,741	(41,222)	7,519	46,767	(37,133)	9,634
Motor vehicles	853	(737)	116	853	(602)	251
Computer hardware	27,860	(22,729)	5,131	28,293	(21,806)	6,487
Capital - Work in progress	19,562	-	19,562	14,180	-	14,180
Total	**179,827**	**(83,422)**	**96,405**	**184,372**	**(77,419)**	**106,953**

The Group and Company owns several freehold and leasehold properties. The leasehold properties each has a lease term of fifty years. A register of the assets is kept with the Group and Company and is available for inspection at the following address: Plot 13108-112 Broadhurst, Gaborone, Botswana.

Reconciliation of property and equipment

Group and Company - 2022

	Opening balance	Additions	Disposals	Transfers to assets held for sale	Depreciation	Total
Freehold and leasehold property	76,401	2,830	-	(13,832)	(1,322)	64,077
Equipment, furniture and fittings	9,634	1,973	-	-	(4,088)	7,519
Motor vehicles	251	-	-	-	(135)	116
Computer hardware	6,487	879	(398)	-	(1,837)	5,131
Capital - Work in progress	14,180	5,382	-	-	-	19,562
Total	**106,953**	**11,064**	**(398)**	**(13,832)**	**(7,382)**	**96,405**

Reconciliation of property and equipment

Company - 2021

	Opening balance	Additions	Depreciation	Total
Freehold and leasehold property	76,219	1,321	(1,139)	76,401
Equipment, furniture and fittings	13,813	515	(4,694)	9,634
Motor vehicles	396	-	(145)	251
Computer hardware	3,898	4,615	(2,026)	6,487
Capital - Work in progress	11,030	3,150	-	14,180
Total	**105,356**	**9,601**	**(8,004)**	**106,953**

A register of the assets is kept with the Group and Company and is available for inspection.

Included in property and equipment cost above is P56 million (2021: P 38.8 million) relating to fully depreciated assets which are still in use.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

13. Property and equipment (continued)

Fair value of assets

Freehold and leasehold land and buildings were valued by an independent professional property valuer in March 2022 at an open market value of P178 million. In terms of the Group and Company's internal policy, the valuation by an independent valuer is conducted every three years. A register of the assets is kept at the Group and Company and is available for inspection.

The Group and Company acts as lessor of leasehold land and buildings. These leases have an average life of between three and five years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. The Group and Company has classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets. The lessor retains title of the property and only facilitate rental through lease agreements with lesees.

A total of P5.2 million was earned as rental income in the current year (2021: P 5.5 million).

Property and equipment are held by the Company for use for a period more than twelve months.

14. Investment in subsidiary

BBS Insurance Agency Limited is a 100% owned subsidiary company of BBS Bank Limited. It was incorporated in Botswana on 28 July 2021 and started trading on 08 June 2022. The Company does not have any regulatory restrictions to use its subsidiary's assets and its cash balances. BBS Insurance Agency Limited has paid up capital of P100,000.00.

Investment in subsidiary	-	100	-

The investment in subsidiary is for a period more than twelve months.

15. Customers' savings and fixed deposit accounts

Fixed deposits	1,428,545	1,428,545	1,083,598
Letsibogo savings	133,311	133,311	139,802
Tlamelo mortgage savings	12,282	12,282	12,306
Ordinary and special savings	135,190	137,678	146,421
Lerako (pensioners' savings account)	35,348	35,348	38,825
Lerako B	37,430	37,430	36,601
Fixed term deposit	10,715	10,715	10,798
SMME ordinary savings account	3,745	3,745	1,692
Indefinite period savings	442,146	442,146	572,591
Accrued interest - customer savings and fixed deposits	53,964	53,964	42,328
	2,292,676	**2,295,164**	**2,084,962**

Fixed deposits have a term ranging from twelve months to sixty months and earn interest at between 2.01% and 8.15% (2021: 0.5% and 6.6%) per annum paid on a monthly basis. The Letsibogo savings product is repayable on demand and earns interest between 1.71% and 2.26% (2021: 0.10% and 0.85%) per annum.

Savings deposits are repayable on demand. The ordinary savings deposit accrues interest at 1.66% (2021: 0.15%) per annum while the special savings earn interest between 1.66% and 2.01% (2021: 0.15% and 0.65%) per annum. Tlamelo mortgage savings accounts earn interest at 2.76% (2021: 1.25%) annually. Lerako savings accounts earn interest between 2.01% and 2.56% (2021: between 0.50% to 2.25%) annually. Lerako B accounts earn negotiated interest at 7.65% (2021: 5.95%) annually. Interest earned on savings accounts is linked to the Botswana prime lending rate. Indefinite period savings earn interest at the Botswana prime lending rate less 0.5% being 6.26% (2021: 4.75%) per annum.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
16. Paid up and subscription savings			
Paid up savings	353,650	353,650	357,959
Subscriptions savings	68,497	68,497	66,850
Accrued interest paid up and subscription savings	2,923	2,923	1,293
	425,070	**425,070**	**426,102**
Amount to be recovered within one year	400,288	400,288	56,727
Amount to be recovered after one year	24,782	24,782	369,375
	425,070	**425,070**	**426,102**

Paid up savings are invested for a period of not less than 18 months and may be redeemed subject to 3 months' notice. Early redemption is permitted with a proportionate forfeiture of interest accrued.

The rates of interest on these savings shall be fixed by the Board at the time of issue and subsequently from time to time as the Board may, in its discretion decide.

Paid up savings and subscription savings earn coupon rates of 2.61% and 3.26% (2021: 1.10% and 1.75%) per annum respectively.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
17. Borrowings			
Gross future cash flows			
Unsecured long term-bonds	529,166	529,166	642,963
Access Bank Botswana Limited	-	-	6,220
Vunani Fund Managers	154,630	154,630	153,628
Total borrowings	**683,796**	**683,796**	**802,811**
Less: future interest payments			
Unsecured long term-bonds	(92,794)	(92,794)	(133,296)
Access Bank Botswana Limited	-	-	(90)
Vunani Fund Managers	(1,809)	(1,809)	(1,532)
	(94,603)	**(94,603)**	**(134,918)**
Carrying amount due at the reporting date	**589,193**	**589,193**	**667,893**
Borrowings repayable within one year			
Unsecured long term-bonds	189,889	189,889	98,682
Access Bank Botswana Limited	-	-	6,220
Vunani Fund Managers	152,821	152,821	153,628
	342,710	**342,710**	**258,530**
Borrowings repayable after one year			
Unsecured long term-bonds	246,483	246,483	409,363
Carrying amount due at the reporting date	**589,193**	**589,193**	**667,893**
Principal balance			
Unsecured long term-bonds	429,644	429,644	502,098
Access Bank Botswana Limited	-	-	6,177
Vunani Fund Managers	150,000	150,000	150,000
	579,644	**579,644**	**658,275**
Accrued interest			
Unsecured long term-bonds	6,775	6,775	7,665
Vunani Fund Managers	2,821	2,821	2,097
	9,596	**9,596**	**9,762**
Arrangement fees			
Unsecured long term bonds	(47)	(47)	(97)
Access Bank Botswana Limited	-	-	(47)
	(47)	(47)	(144)
Carrying amount due at the reporting date	**589,193**	**589,193**	**667,893**
Reconciliation of cashflow during the year			
Opening balance	667,893	667,893	914,682
Repayment during the year	(78,534)	(78,534)	(312,885)
Proceeds from borrowings	-	-	64,470
Interest paid during the year	(9,763)	(9,763)	(8,137)
Interest accrued at year end	9,597	9,597	9,763
Carrying amount at the end of the year	**589,193**	**589,193**	**667,893**

Notes to the Consolidated And Separate Financial Statements

17. Borrowings (continued)

Vunani Fund Managers (formerly Stanlib Investment Management Services (Pty) Ltd)

The loan amounts to P150 million (2021: P 150 million) was issued as two notes each with an amount of P75 million. The loan was rolled over for another 12 months upon maturity. The first principal amount of P75 million is payable on 11 January 2023 and the remaining P75 million on 12 April 2023. The interest payments are payable in arrears at the 3 month T-bill rate (Stop-out yield) plus a margin of 500 basis points (2021: 91- day BoBC rate plus a margin of 500 basis points) per annum.

Unsecured long term - bonds

BBSBL bond BBS005 and BBS012 are the only bonds listed on the Botswana Stock Exchange Limited.

BBS005 commenced on 3 December 2008 with a fixed rate of 11.20% and a principal amount of P150 million.

BBSBL issued a 5-year Bond amounting to P64,470 million, BBS012. The bond commenced on 9 August 2021 with a floating rate of 7.50%. Interest is determined at the beginning of the period as the Monetary Policy rate (MoPR) plus 6.36% as published by Bank of Botswana. The interest payments dates are on 9th February and 9th August commencing on 9th February 2022.

31 December 2022

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS005	03 December 2023	150,000	Fixed	11.20%
BBS007	26 August 2025	86,700	Fixed	9%
BBS010	27 December 2028	103,474	Fixed	8% reducing balance method
BBS011	16 September 2027	25,000	Fixed	7.25%
BBS012	09 August 2026	64,470	Floating	Bank of Botswana Bank rate plus 3.75%

31 December 2021

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS005	03 December 2023	150,000	Fixed	11.20%
BBS007	26 August 2025	86,700	Fixed	9%
BBS008	02 October 2022	45,500	Fixed	7.75%
BBS009	03 March 2022	14,000	Floating	Bank of Botswana Bank rate plus 2%
BBS010	27 December 2028	116,426	Fixed	8% reducing balance method
BBS011	16 September 2027	25,000	Fixed	7.75%
BBS012	09 August 2026	64,470	Floating	Bank of Botswana rate plus 3.75%

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
18. Debentures			
Debentures	101,000	101,000	101,000
Accrued interest on debentures	1,235	1,235	974
	102,235	**102,235**	**101,974**
Gross future cash flows			
- within one year	6,828	6,828	5,303
- in second to fifth year inclusive	27,329	27,329	21,220
- later than five years	105,658	105,658	108,958
Total gross debentures	**139,815**	**139,815**	**135,481**
Less: future interest payments			
- within one year	6,828	6,828	5,303
- in second to fifth year inclusive	27,329	27,329	21,220
- later than five years	3,423	3,423	6,984
Total interest payments	**37,580**	**37,580**	**33,507**
Total net debentures	**102,235**	**102,235**	**101,974**

The debentures are unsecured, unlisted irredeemable debt instruments with a fixed term of ten years effective 26 April 2018. Significant members who signed an irrevocable undertaking entered into an agreement to subscribe for debenture notes. The debentures amount to P101 million and bears interest at the Botswana prime lending rate. Interest is payable semi-annually in April and October.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
19. Lease liabilities			
Reconciliation of lease liabilities			
Opening balance	19,638	19,638	21,693
Additions	-	-	892
Derecognition of terminated leases	-	-	(898)
Lease interest expense	1,304	1,304	1,528
Payments (interest and principal)	(2,504)	(2,504)	(2,781)
Remeasurement of lease liability*	(2,552)	(2,552)	(796)
Closing balance	**15,886**	**15,886**	**19,638**
Payments of lease liabilities			
Lease interest expense	1,304	1,304	1,528
Payments (interest and principal)	(2,504)	(2,504)	(2,781)
	(1,200)	**(1,200)**	**(1,253)**

*The remeasurement resulted from the revision of contractual payments of some leases the Group and Company has entered into. The related lease liability has been remeasured by discounting the revised lease payments using the initial discount rate and this resulted in the reduced lease liability at the reporting date.

	Group 2022	Company 2022	Company 2021
Minimum lease payments due			
- within one year	2,601	2,601	2,679
- in second to fifth year inclusive	11,437	11,437	12,741
- later than five years	6,997	6,997	11,965
Total undiscounted lease liability	21,035	21,035	27,385
less: future finance charges	(5,149)	(5,149)	(7,747)
Present value of minimum lease payments	**15,886**	**15,886**	**19,638**
Present value of minimum lease payments due			
- within one year	1,467	1,467	1,238
- in second to fifth year inclusive	8,277	8,277	8,259
- later than five years	6,142	6,142	10,141
carrying amount	**15,886**	**15,886**	**19,638**

The Group and Company has entered into various leases for office space as it operates from various locations. The duration of the leases range between five to ten years with an option to renew. The incremental borrowing rate to discount the leases was 7.44% (2021:7.44%). The leases are subject to escalations between 6% and 10% on anniversary
Interest expense relating to lease liabilities is disclosed under note 26.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
20. Other liabilities			
Other liabilities	9,002	8,691	7,390
IFC make whole amount	-	-	2,760
Other payroll liabilities	8,786	8,786	6,091
Loan commitments issued- expected credit loss*	19	19	5
Deferred administration fees	18,291	18,291	16,217
	36,098	**35,787**	**32,463**
Reconciliation of deferred administration fees			
Opening balance	**16,217**	**16,217**	**19,213**
Additional administration fees deferred during the year	4,980	4,980	2,128
Administration fees released to profit or loss during the year**	(2,906)	(2,906)	(5,124)
Closing balance	**18,291**	**18,291**	**16,217**

*Expected credit losses on loan commitments was classified as stage 1 in the current and previous year.

** Income from opening balance recognised during the year was P 1.831 million (2021: 1.836 million).

The Other liabilities include amounts payable to creditors such as security, utilities and cleaning services.

The other payroll liabilities amount is made up of leave and gratuity accruals.

Maturity analysis - Administration deferred fees			
- within one year	2,119	2,119	1,831
- in second to fifth year inclusive	6,733	6,733	5,728
- later than five years	9,439	9,439	8,658
carrying amount	**18,291**	**18,291**	**16,217**

Other liabilities other than mortgage deferred administration fees are held for a period less than twelve months.

Reconciliation of the expected credit loss allowance (ECL) on loan commitments

	Loss allowance	
	2022	**2021**
Opening balance	**5**	**8**
Impairment allowance	14	(3)
Closing balance	**19**	**5**

There has been an increase in ECL due to an increase in the loan commitment from P25 million to P69 million.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
21. Withholding tax			
Withholding tax	1,337	1,338	1,650

This relates to withholding tax on interest paid to the Group and Company's members and customers and which is due to Botswana Unified Revenue Service.

Effective 01 July 2021, the Group and Company exempts interest up to P7 800 accrued to a resident individual and does not apply any exemption on interest accrued to Corporates.

Withholding tax is payable within a period of less than one month.

22. Current tax payable			
Corporate tax	38	-	-
23. Stated capital			
Authorised			
Ordinary shares at no par value	487,453	487,453	487,453
Issued			
Ordinary	487,453	487,453	487,453
Ordinary shares			
Balance at the beginning of the year	487,453	487,453	487,453
Balance at the end of the year - fully paid	**487,453**	**487,453**	**487,453**

The stated capital of BBS Bank Limited changed from Indefinite period paid up shares to Ordinary shares upon demutualisation on 26 April 2018.

As at 31 December 2022, shares amounting to P4.2 million (2021: P 8.1 million) were held in a BBSL Trust Account with the Botswana Stock Exchange. These shares are for shareholders who did not have CSDB accounts as at the time of registering the shares in the Serala over the counter board (OTC) of the Botswana Exchange Limited.

24. Reserves

Statutory reserve

The statutory reserve fund was established in terms of paragraph 39 of the Building Societies Act (CAP 42:03). The Act required the Company to set aside a minimum of 10% of its undistributed profits into the reserve fund. The Company charged against the reserve fund any net loss remaining after applying such loss against any undistributed profits brought forward from previous years. On 6 October 2022, the Building Societies Act ceased to apply to the Bank, as such the balance of the reserve was transferred to retained earnings following the ceasation of the Building Societies Act.

Balance at the begining of the year	**113,437**	**113,437**	**113,437**
Transfer out of statutory reserve	(113,437)	(113,437)	-
Balance at the end of the year	**-**	**-**	**113,437**

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
25. Interest income			
Cash and cash equivalents and investments with banks	28,087	28,087	16,808
Long term loans and advances	248,176	248,176	230,835
Short term loans and advances	5,477	5,477	4,832
Total interest income	**281,740**	**281,740**	**252,475**
Cash and cash equivalents	28,087	28,087	16,808
Long term loans and advances	252,231	252,231	234,680
Short term loans and advances	5,492	5,492	4,853
Gross interest income	**285,810**	**285,810**	**256,341**
Interest revenue recognition adjustment			
Long term loans and advances	(4,055)	(4,055)	(3,845)
Short term loans and advances*	(15)	(15)	(21)
	(4,070)	**(4,070)**	**(3,866)**
Net interest income	**281,740**	**281,740**	**252,475**

* Includes interest revenue recognition on staff debtors-loans of P0.003 million (2021: P0.003 million).

**Interest revenue recognition adjustment represents interest income forgone on credit impaired financial assets. Interest is calculated on the net amortised cost of the asset instead of Gross cost of the asset.

All Interest is calculated at effective interest rate.

26. Interest expense

	Group 2022	Company 2022	Company 2021
Unsecured loan term bonds	43,271	43,271	42,695
Access Bank Botswana Limited	-	-	1,965
International Finance Corporation	-	-	10,633
Vunani Fund Managers	11,570	11,570	9,429
Debentures	5,563	5,563	5,302
Paid up and subscription savings	8,476	8,476	5,137
Fixed deposits	83,261	83,261	56,344
Savings accounts	6,732	6,746	2,931
Indefinite period savings	25,041	25,041	26,773
Lease interest	1,304	1,304	1,528
Total interest expense	**185,218**	**185,232**	**162,737**

All Interest expense is calculated at effective interest rate.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

27. Net fee and commission income

A. Disaggregation of fee and commission income

Fee and commission income from contracts with customers falls within the scope of IFRS 15 - Revenue from contracts with customers. Revenue recognition is disaggregated by major type of services below.

Fee and commission income

Administration fees	5,301	4,786	5,719
Account services	4,742	4,742	5,167
Transactional	4,855	4,855	3,807
Commissions	6,829	4,294	4,032
Fee and commission expense	**21,727**	**18,677**	**18,725**
Interbank transaction fees	(1,678)	(1,678)	(1,606)
Net fee and commission income	**20,049**	**16,999**	**17,119**

B. Contract balances

Information about contract liabilities from contracts with customers is shown below.

Contract liabilities which are included in other liabilities	18,291	18,291	16,217

The contract liabilities primarily relate to the non-refundable upfront administration fees received from customers on opening mortgage accounts or obtaining further advances. This is recognised on a straight-line basis over the remaining term of a loan.

C.Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group and Company recognises revenue when all performance obligations have been satisfied.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Notes to the Consolidated And Separate Financial Statements

27. Net fee and commission income (continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Fee and commission income from administration fees of loans and advances	This relates to fee and commission income related to the loans and advances to customers of the Group and Company based on 1.25% of the loan amount.	Revenue from administration fees is recognised on a straight-line basis over the remaining term of a loan. The amounts to be recognised in future months are recognised as other liabilities.
Fee income from account services	This relates mainly to service fees, such as financial reference letters and dishonored payment fees charged monthly in line with the Group and Company tariff guide.	The fees are recognised as the services are performed and received.
Transactional income	This relates mainly to transaction fees charged monthly in line with the Group and Company tarriff guide.	The fees are recognised as the services are performed and received.
Commissions income	This relates to commission fees on Mortgage customers insurance referral fees based on agreed margins with the brokers.	The fees are recognised as the services are performed and received.

Notes to the Consolidated And Separate Financial Statements

		Group	Company	
Figures in Pula thousand	Note(s)	2022	2022	2021
28. Other operating income				
Rental income		5,268	5,274	5,539
Sundry income		-	992	202
Profit/(loss) on exchange differences		142	142	-
		5,410	**6,408**	**5,741**
29. Expected credit losses				
Expected credit losses on financial assets				
Impairment allowance-excluding interest revenue recognition				
Expected credit loss allowance - mortgages loans and advances to customers	10	(7,140)	(7,140)	(28,182)
Expected credit loss allowance - mortgages loan commitments	20	14	14	(3)
Expected credit loss allowance - short loans	8	(12)	(12)	(521)
Expected credit loss allowance - staff loans	7	(66)	(66)	31
Staff loan writeoff		229	229	-
		(6,975)	**(6,975)**	**(28,675)**
Write-down on mortgage loans				
Loss on repossession of collateral		1,203	1,203	7,711
Loss on mortgage loans de-recognised from collateral sold at auction during the year		1,331	1,331	2,194
		2,534	**2,534**	**9,905**
Loss incurred on sale of non-financial assets				
Gain on disposal of property in possession		(713)	(713)	(1,514)
Loss on disposal of property in possession during the year		1,001	1,001	1,384
		288	**288**	**(130)**
		(4,153)	**(4,153)**	**(18,900)**
Interest revenue recognition				
Mortgage loans and advances	10	4,055	4,055	3,845
Short-term loans and advances	8	12	12	18
Staff debtors-loans	7	3	3	3
		4,070	**4,070**	**3,866**

The inputs and assumptions into the IFRS 9 model are carefully considered by Management for completeness and relevance. The inputs and assumptions are reviewed on an annual basis and adjusted accordingly to reflect changing macro-economic environment. ECL calculations are reviewed for accuracy and consistency and reasonableness on a regular basis. The results for the year have been consistent with Management expectations. The inputs and models used for calculating ECLs may not always capture all characteristics of the market or underlying customer behaviour at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Overlays considered at the reporting period and the previous year are deemed not material.

As per IAS 1 - Presentation of financial statements, the Group and Company has revised the presentation of expected credit losses which were historically reported on an aggregate basis with impairment on non-financial assets. Effective 2022, the disclosure has been split further to disclose the loss on disposal of assets separately. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact on the statement of profit or loss and Other Comprehensive Income.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
30. Personnel expenses			
Employee costs			
Salaries and wages	69,647	69,114	66,061
Pension fund contributions	6,187	6,187	5,826
Leave pay expense	2,215	2,179	2,197
Fair value adjustments-off market staff loans	(4,448)	(4,448)	301
	73,601	**73,032**	**74,385**
31. Depreciation and amortisation			
Depreciation			
Property and equipment	7,382	7,382	8,004
Right-of-use assets	2,124	2,124	2,306
	9,506	**9,506**	**10,310**
Amortisation			
Intangible assets	3,054	3,054	6,824
Total depreciation and amortisation			
Depreciation	9,506	9,506	10,310
Amortisation	3,054	3,054	6,824
	12,560	**12,560**	**17,134**
32. Other expenses			
Directors fees*	2,148	2,148	1,229
Audit fees - current year	1,946	1,904	1,834
Audit fees - prior year overprovision/cost overruns	(330)	(330)	275
Advertising and marketing	3,138	3,123	2,963
Computer maintenance expenses	1,427	1,427	3,216
Insurance	2,911	2,904	2,686
Legal and professional expenses	1,306	1,306	3,846
Consulting and professional fees	8,542	8,542	7,656
License fees	14,734	14,731	13,899
Repairs and maintenance	4,861	4,861	4,744
Printing and stationery	1,161	1,161	1,130
Telephone and postage	4,457	4,457	3,768
Travel and subsistence costs	777	777	685
Office supplies	1,514	1,514	2,015
Security expenses	2,758	2,758	2,752
Subscriptions	931	927	394
Water & electricity	1,500	1,500	1,801
Premises - Straight line charge	2	-	-
Other expenses	1,029	1,028	7,056
VAT expense - unclaimed portion	4,893	4,893	3,377
	59,705	**59,631**	**65,326**

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

32. Other expenses (continued)

Printing and stationery includes expense relating to short-term leases of printers amounting to P0.686 million (2021: P0.591 million).

*Directors fees consist of sitting fees of P1,929 million (2021: P1,229) million and other directors' expenses of P0.219 million (2021: P Nil).

33. Taxation

Major components of the tax expense

	Group 2022	Company 2022	Company 2021
Current			
Local income tax - current period	313	-	-
Reconciliation of the tax expense			
Reconciliation between accounting profit and tax expense			
Operating loss before tax	(19,732)	(21,155)	(25,347)
Tax at the applicable tax rate of 22% (2021: 22%)	(4,341)	(4,654)	(5,576)
Less: exempt portion relating to BBS Bank Limited	4,654	4,654	5,576
Income tax charge	**313**	**-**	**-**

As at the reporting date, BBS Bank Limited ("the Company") was exempt from Income tax. The Income tax charge recognized for the year relates to BBS Insurance Agency Limited. It was calculated on its profit before tax of P1.423 million.

Refer to accounting policy note 1.7 for further details.

34. Dividend per share

No dividend was declared in the current or previous year.

35. Basic and diluted loss per share

Earnings per share are calculated by dividing the net loss attributable to equity holders of the Group and Company by the weighted average number of ordinary shares during the year.

	Group 2022	Company 2022	Company 2021
Loss attributed to shareholders	(20,045)	(21,155)	(25,347)
Weighted average number of ordinary shares outstanding during the year (thousands)	487,453	487,453	487,453
Basic and diluted loss per share (thebe)	(4.11)	(4.34)	(5.20)

No instruments at the reporting date were considered to have a dilutive effect on the ordinary share value and as a result no difference was recognised between the basic and dilutive earnings per share for the current or prior financial year.

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
36.Commitments			
Commitment in respect of mortgages approved but not yet disbursed	68,538	68,538	24,579
Mortgage commitments are for a period not exceeding 12 months			
Capital expenditure - approved but not yet committed	2,680	2,680	8,189
Capital expenditure - approved and committed	3,956	3,956	7,143

Capital commitments are for IT related projects to capacitate the system for commercialisation undertaken by the Group and Company. The commitments are to be financed through funds raised from customer deposits and borrowings.

37. Related parties

Related party balances

BBS Bank Limited transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of BBS Bank Limited are set out below:

Amounts due to related parties

	Group 2022	Company 2022	Company 2021
Savings accounts			
Executive Management	931	931	661
Non-executive directors	50	50	-
BBS Insurance Agency Limited	-	2,488	-
	981	**3,469**	**661**
Interest expense on savings accounts			
BBS Insurance Agency Limited	-	13	-
Executive Management	6	6	1
Non-executive directors	1	1	-
	7	**20**	**1**
Paid up, subscription and indefinite period paid up savings			
Held by the BBS Bank Limited Directors	15	15	189
Executive Management	1,378	1,378	4,773
	1,393	**1,393**	**4,962**
Interest expense on paid up, subscription and indefinite period paid up savings			
Held by the BBS Bank Limited Directors	-	-	2
Executive Management	46	46	197
	46	**46**	**199**
Ordinary shares			
Held by the BBS Bank Limited Non-executive directors	104	104	104
Executive Management	631	631	425
	735	**735**	**529**

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021
37. Related parties (continued)			
Indefinite period paid-up savings			
Motor Vehicle Accident Fund	-	-	85,377
Botswana Privatisation Asset Holdings	70,781	70,781	70,757
Botswana Police Staff Savings and Loans Guarantee Scheme	159,698	159,698	152,648
	230,479	**230,479**	**308,782**
Interest expense on Indefinite period paid-up savings			
Motor Vehicle Accident Fund	1,078	1,078	4,100
Botswana Privatisation Asset Holdings	3,591	3,591	3,399
Botswana Police Staff Savings and Loans Guarantee Scheme	7,833	7,833	6,392
	12,502	**12,502**	**13,891**
Debentures			
Motor Vehicle Accident Fund	41,000	41,000	41,000
Botswana Privatisation Asset Holdings	50,000	50,000	50,000
	91,000	**91,000**	**91,000**
The terms and conditions are as disclosed per note 18			
Interest expense on debentures			
Motor Vehicle Accident Fund	2,264	2,264	2,153
Botswana Privatisation Asset Holdings	2,762	2,762	2,625
	5,026	**5,026**	**4,778**
Ordinary shares			
Motor Vehicle Accident Fund	36,793	36,793	36,793
Botswana Privatisation Asset Holdings	73,464	73,464	73,464
Botswana Police Staff Savings and Loans Guarantee Scheme	44,823	44,823	44,823
	155,080	**155,080**	**155,080**

Motor Vehicle Accident Fund, Botswana Privatisation Asset Holdings and Botswana Police Staff savings and loans guarantee scheme are related parties through their shareholding relationship with the entity.

Amounts due from related parties			
Mortgages			
Non-Executive Directors	1,608	1,608	1,635
Executive Management	25,632	25,632	26,322
	27,240	**27,240**	**27,957**
Short-term loans			
Executive Management	153	153	619
Staff loans			
Executive Management	3,348	3,348	4,107
Amount receivable from related company			
BBS Insurance Agency Limited	-	1,036	-

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

37. Related parties (continued)

Advances are made to employees on concessionary terms in accordance with the conditions of employment.

Advances to Directors and parties related thereto are in the normal course of business and considered to be adequately secured.

Advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged on similar loans to non-related parties.

	Group 2022	Company 2022	Company 2021
Loan commitments			
Held by the BBS Bank Limited Executive Management	-	-	55
Expected credit losses on balances due from related parties			
Mortgages			
Non-Executive Directors	0.21	0.21	6
Executive Management	3	3	4
	3	3	10
Short loans			
Executive Management	0.52	0.52	2
Staff loans			
Executive Management	25	25	33

Expected credit losses on related party loans and advances were classified as Stage 1 at the reporting date.

Related party transactions

Amounts paid to related parties	**Nature of transaction**	Group 2022	Company 2022	Company 2021
Non-Executive Directors - remuneration fees and other expenses	Board sitting fees and other expenses	2,148	2,148	1,229
Board of Directors - interest expense	Interest expense	-	1	2
Executive Management - interest expense	Interest expense	-	52	198
		2,148	**2,201**	**1,429**
Amounts received from related parties				
Non-Executive Directors - interest income	Interest income	130	130	119
Executive Management - interest income	Interest income	1,347	1,347	1,535
BBS Insurance Agency Limited	Interest income	-	13	-
BBS Insurance Agency Limited	Management fees	-	991	-
		1,477	**2,481**	**1,654**

Notes to the Consolidated And Separate Financial Statements

	Group	Company	
Figures in Pula thousand	2022	2022	2021

37. Related parties (continued)

Executive Management

Gross emoluments of the key management personnel are analysed as follows:			
Salaries, allowances and other short-term benefits	14,782	14,782	13,198
Post-employment benefits	4,256	4,256	4,457
	19,038	**19,038**	**17,655**

Key management personnel for the Group and Company have been defined as members of Executive Committee of BBS Bank Limited.

38. Going concern assessment

The Group and Company recorded a loss of P20 million and P21 million respectively for the year ended 31 December 2022. (31 December 2021: Loss of P25 million) and as of that date its total assets exceeded total liabilities by P474 million and P473 million (31 December 2021: P494 million), representing a cumulative decrease of P20 million and P21 million from the previous year. The liquid assets ratio stood at 17.65% (31 December 2021: 17.35%) at the reporting date which is above the regulatory threshold of 10%.

The Company has been recording recurring losses since 2018 with liquidity and capital adequacy ratios (CAR) exceeding the Bank of Botswana prudential limits. The regulatory limit of CAR was revised downwards from 15% to 12.5% effective 1 April 2020 as part of monetary policy measures taken by the Government.

Key liquidity ratios

The Group and Company continues to manage liquidity buffers through maintaining High Quality Liquid Assets (HQLA) and also Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratios (NFSR) are met.

Credit risk

The Group and Company continues to carry out stress testing of all its credit risk elements. Estimates and conclusions by Management are continuously scrutinized based on historical events and current estimates of upcoming events.

There have been no significant changes to assumptions and modelling conclusions applied in the Group and Company's Financial Statements for the year ended 31 December 2022.

Commercial banking license

BBS Bank Limited ("The Company") went through a demutualisation process in April 2018 whereby it changed from a building society to a Company limited by shares, and this came with a mandatory change in the capital structure. Part of the funds that formed equity under the building society model were converted to liabilities (deposits) in the new Company. This change negatively impacted the bottom line as these liabilities were now earning interest as opposed to a dividend and it is evidenced by the losses recorded by the Company since it demutualised.

On 06 October 2022, BBS Bank Limited received its commercial banking license and pursuant to that development, the Bank has been accelerating the requisite updates and implementation of its five year Corporate strategy.

Notes to the Consolidated And Separate Financial Statements

38. Going concern assessment (continued)

A new strategy that is intended to guide the Company during the transition to the new bank and beyond was approved by the Board in December 2022 and it is expected to turn around the loss-making position of the Group and Company after the rollout of the Commercial bank. The rollout of the commercial bank strategy will enable the Company to introduce a wide range of products and services.

Management is confident that the commercial bank will be rolled out immediately within the next six months.

Forecasted financial position and performance

The issuance of the banking license has eliminated uncertainties with respect to the timing of the implementation of the five-year corporate strategy which was approved by the Board in December 2020 and reviewed in December 2022. It is anticipated that the Company will record a marginal profit in the first year of its operation as a commercial bank due to high expenditure which is inherent to the transition process.

Ratios such as the cost to income ratio and loans to deposits ratio will remain elevated and will improve with the diversification of the assets base and introduction of diversified income streams. Management is aware of this and will ensure that the necessary initiatives to mitigate the negative impact are implemented to ensure that the Group and Company continue to operate with no threat to its existence in the foreseeable future.

Economic outlook

Economic growth in Botswana is forecast to taper off to 4.0% on the back of slowed down demand in diamond mining including a slower growth in credit extension recorded after monetary policy tightening. Growth will be supported by effective implementation of the two-year Transitional National Development Plan, Economic Recovery and Transformation Plan. Inflation has been on a downward trajectory since Q3 2022 and is forecast to fall within the Bank of Botswana medium term objective range of 3 - 6 % in the latter half of 2023. This disinflationary trend is expected to be supported by softening oil prices and receding United States Dollar strength.

Management will proceed with caution and adopt diligent prioritization of resources. The key strategic focus is on the transformational journey with a view to improve the returns of the Company.

Management has assessed the ability of the Group and Company to continue as a going concern and has no reason to believe that the business will not be a going concern in the year ahead. Management is of the view that the conditions that have been identified do not raise doubt about the entity's ability to continue as a going concern. As a result, the Group and Company's financial statements for the year ended 31 December 2022 have been prepared on a going concern basis.

39. Events after the reporting date

Appointment of Managing Director

On 04 January 2023, Mrs Pedzani Tafa assumed office as the Managing Director of BBS Bank Limited.

Staff rationalization programme

Following the issuance of the Banking license in October 2022, the Bank resumed the previously deferred rationalization programme through its first staff consultative meeting held on 11 February 2023. The programme was deferred in 2020 due to various developments including the COVID-19 outbreak and its impact, particularly the economic conditions that affected the financial position of the Bank and the liquidity challenges faced by the Bank, rendering it financially unfeasible to proceed with the programme. The programme may be applied alongside other strategies to enable the acquisition of the required skills for the organisation. On its journey as a commercial bank, the human resource strategy will be to re-train, redeploy, recruit and retrench where applicable. The programme will commence with a voluntary exit programme in April 2023. Should retrenchment be unavoidable, these shall begin with effect from May 2023 and it be carried out with full consultation having taken place.

Notes to the Consolidated And Separate Financial Statements

As at the reporting date, the separation packages for staff members who will separate with the Company could not be measured reliably as the consultations with the relevant stakeholders, including employees had not been initiated. As at the date of approval of these financial statements, the Company was yet to identify employees who will separate with the Company through the voluntary exit programme.

40. Litigation

BBS Bank Limited remains a defendant in only two significant litigation matters which arose from its normal day to day operations. These are claims by Southern African Furniture Manufacturers (SAFCO) and its subsidiaries Dwinchi (Pty) Ltd and Mohan (Pty) Ltd for approximately P40.55 million, in respect of damages incurred and for replacement of movable property which they allege the Company (BBS Bank Limited) wrongfully sold in 2005. This matter has been ongoing since November 2015 and is going through the judicial process. Management believe that the defence against the claim will be successful.

41.Compliance with the Banking Act

BBS Bank Limited is now governed by the Banking Act (CAP 46.04).The Building Societies Act ceased to apply on 6 October 2022.

42. Segment information

As at the reporting date, BBS Bank Limited had no separate segments for consideration by the Managing Director as its core business was the provision of mortgage facilities and advances to individual and corporates in Botswana. As such, the main business of the Company was evaluated as a whole by the Chief Operating Decision Maker (CODM). The Chief Operating Decision Maker of the Company is considered to be the Managing Director.

Following the issuance of the commercial banking license, the Bank is restructuring its business model to introduce new banking products and services which will be key for the definition and identification of its operating segments/business units. As at the reporting date, the set up of the treasury function was at an advanced stage however, no treasury business was carried out during the year.

Going forward, the company will have separate identifiable segments based on its products and services. The Executive Management Committee will monitor the operating results of the business units separately for purposes of making decisions about resource allocation and the performance assessment. Segment performance will be based on profit or loss and measured consistently with profit or loss in the consolidated financial statements.

43. Shareholder information

	No of shares held - 2022	% holding - 2022
Botswana Privatisation Asset Holding (Pty) Ltd	73,464	15.07 %
Botswana Police Staff Savings and Loans Guarantee Scheme	44,823	9.20 %
Mr. Derek Brink	38,011	7.80 %
Motor Vehicle Accident Fund	36,793	7.55 %
Ms. Rita Brink	35,341	7.25 %
Mr. Simon Hirschfeld	13,191	2.71 %
Estate of late Abdul Joseph	12,191	2.50 %
Botlhale Investments (Pty) Ltd	11,966	2.45 %
Ms. Lerie Brink	11,037	2.26 %
Others	210,636	43.21 %
Total shareholding	**487,453**	**100 %**

Notes to the Consolidated And Separate Financial Statements

43. Shareholder information (continued)

	No of shares held - 2021	% holding - 2021
Botswana Privatisation Asset Holding (Pty) Ltd	73,464	15.07 %
Botswana Police Staff Savings and Loans Guarantee Scheme	44,823	9.20 %
Mr. Derek Brink	38,011	7.80 %
Motor Vehicle Accident Fund	36,793	7.55 %
Ms. Rita Brink	35,341	7.25 %
Mr. Simon Hirschfeld	13,191	2.71 %
Estate of late Abdul Joseph	12,191	2.50 %
Botlhale Investments (Pty) Ltd	11,966	2.45 %
Ms. Lerie Brink	11,037	2.26 %
Others	210,636	43.21 %
Total shareholding	**487,453**	**100 %**

44. Financial instruments and risk management

Financial risk management

Introduction and overview

The Group and Company has adopted an Enterprise-wide approach to risk management which is in compliance with the directive on Revised International Convergence of Capital Standards for Botswana (Basel II) risk framework. 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 Group and 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 practice.

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

The level of the Group and Company's profitability is directly derived from how successfully the Group and Company manages and prices for risk.

- 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.

- The second line of defence are the various sections in the Risk Function. These units 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

- The third line of defence is the Internal Audit functions. The Internal Audit Department is not considered as 'part of Management' and works independently, objectively and reports to the Board Audit Committee.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The basis of the BBSBL's Enterprise Risk Management Process is a continuous cycle anchored in the 5 steps of identify, analyse, 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 – Analyse risks
Risks are assessed or analysed 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 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 responses 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 BBSBL. 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 maximise 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.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Governance

Role of the Internal Audit Department

The role of the Internal Audit Department is to assist the BBS Bank Limited in achieving its objective of improving governance and risk management through the enhancement of enterprise-wide risk management and improving operational efficiency. The mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. The function provides reasonable assurance to the Board on the adequacy and effectiveness of the bank's internal controls, risk management, financial reporting systems, safeguarding of corporate resources and that the bank complies with all the relevant laws and regulations.

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 Group and Company.

The Board has the following sub committees:
- Audit Committee
- Human Resources, Renumeration and Nominations Committee
- Risk and Compliance Committee

The above Board Sub-committees and Board convene on a quarterly basis. The Group and 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 Risk and Compliance Committee.

The Group'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 Group and Company 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.

The Group and Company is exposed to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group and Company's loans and advances to customers, investments with banks and investments in debt securities. For risk management reporting purposes, the Group and Company considers and consolidates all elements of credit risk exposure (such as individual obligator default risk and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to Senior Management. The Risk Department is responsible for oversight of the Group and Company's credit risk, including:
- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessments, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit underwriting unit which reports to the Head of Credit. Larger facilities require approval by the Credit Approvals Committee and the Global Credit Risk Management Committee. Any loans which are more than 5% of the Group and Company's capital require approval by the Board of Directors.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

- Reviewing and assessing credit risk. The Group and Company assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals of facilities are subject to the same review process.
- Limiting concentration of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Group and Company's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment allowances may be required against specific credit exposures. The responsibility for setting risk grades lies with the Global Credit Risk Management Committee.
- Developing and maintaining the Group and Company's processes for measuring ECL. This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.

The Group and Company has Board-approved policies in place that provide guidance on the classification and measurement of financial instruments. The policy also provides guidance on the methodology of calculating expected credit losses. The Group and Company has developed models which are used to calculate expected credit losses of financial instruments in line with IFRS 9 - Financial Instruments.

- Reviewing compliance of business units with agreed exposure limits, including those for sector and individual exposure. Reports are provided to the Board every quarter.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The Group and 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 Group and Company groups its loans into Stage 1, Stage 2, Stage 3 as described below:

- Stage 1: When loans are first recognised, the Group and Company recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. Reclassifications from Stage 2 are however subject to 'cooling off' period of 3 months;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group and Company records an allowance for the Lifetime Expected Credit Loses (LTECLs). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Reclassifications from stage 3 are however subject to a 'cooling off" period of 3 months.
- Stage 3: Loans are considered credit impaired. The Group and Company records an allowance for the life-time expected credit loss.

For management of credit risk, the Group and Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored by the Credit Approvals Committee which reports to the Global Credit Risk Management Committee and ultimately to the Board Risk and Compliance Committee. The Board approves management's lending limits and monitors loans and advances that are not performing.

The credit risk exposures relating to recognised financial assets are as follows:

		Group	Company	Company
		2022	2022	2021
	Note(s)	P'000	P'000	P'000
Bank balances	3	35,134	35,134	128,320
Investments with banks	4	448,033	448,033	311,520
Balance due from related company	5	-	1,036	-
Short-term loans and advances to customers	8	56,002	56,002	52,923
Mortgage loans and advances to customers	10	3,185,791	3,185,791	3,126,662
Staff debtors	7	13,791	13,791	14,862
		3,738,751	**3,739,787**	**3,634,287**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The above table represents a worst-case scenario of credit risk exposure to the Group and Company at 31 December 2022 and 31 December 2021, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above 85% of the total maximum exposure is derived from mortgage loans and advances to customers (2021: 86%) and 12% represents fixed deposits with banks (2021: 9%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group and Company resulting from both its mortgage loans and advances to customers' portfolio and debt securities based on the following:
- Short term loans and balances are fully secured; and
- Mortgage loans and advances to customers are backed by collateral;

Description of collateral held as security and other credit enhancements, in respect of the exposure above is outlined below.

Mortgage loans and advances to customers - On Balance Sheet

Group and Company - 2022	**Note(s)**	**Stage 1 Performing**	**Stage 2 Performing**	**Stage 2 Non-performing (past due)**	**Stage 3 Non-performing**	**Total**
		P'000	**P'000**	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired						
Standard		2,187,858	-	7,735	4,603	2,200,196
Special mention/Watch list		431,082	23,007	245,696	19,487	719,272
Substandard		-	-	57,405	22,163	79,568
Doubtful		-	-	-	101,717	101,717
Loss		-	-	-	136,264	136,264
Gross carrying amount		**2,618,940**	**23,007**	**310,836**	**284,234**	**3,237,017**
ECL impairment allowance	10	(455)	(68)	(1,068)	(49,635)	(51,226)
Net loans and advances		**2,618,485**	**22,939**	**309,768**	**234,599**	**3,185,791**

Company - 2021	**Note(s)**	**Stage 1 Performing**	**Stage 2 Performing**	**Stage 2 Non-performing (past due)**	**Stage 3 Non-performing**	**Total**
		P'000	**P'000**	**P'000**	**P'000**	**P'000**
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**
ECL impairment allowance	10	(594)	(98)	(764)	(52,855)	(54,311)
Net loans and advances		**2,680,668**	**29,867**	**187,567**	**228,560**	**3,126,662**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The ECL decreased by 5.68% because the recovery of non-performing loans sitting under stage 3. Loans categorised as substandard and doubtful decreased by 6.60%. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in accounting policy note 1.8.

	2022	2021
Impairment (ECL) coverage ratio	1.58 %	1.71 %
Stage 3 coverage ratio	17.46 %	18.78 %

Short-term loans and advances to customers - On Balance sheet

Group and Company - 2022	Notes	Stage 1 Performing	Stage 2 Performing	Stage 2 Non-performing (past due)	Stage 3 Non-performing	Total
		P'000	P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired						
Standard		25,259	-	248	16	25,523
Special mention/Watch list		21,562	-	484	28	22,074
Substandard		5,404	-	293	8	5,705
Doubtful		2,619	-	267	5	2,891
Loss		10	-	-	100	110
Gross carrying amount		**54,854**	**-**	**1,292**	**157**	**56,303**
ECL impairment allowance	8	(165)	-	(9)	(127)	(301)
Net loans and advances		**54,689**	**-**	**1,283**	**30**	**56,002**

Company - 2021	Notes	Stage 1 Performing	Stage 2 Performing	Stage 2 Non-performing (past due)	Stage 3 Non-performing	Total
		P'000	P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired						
Standard		24,306		109	12	24,427
Special mention/Watch list		20,678		431	18	21,127
Substandard		5,460		428	4	5,892
Doubtful		1,291		203	-	1,494
Loss		171		-	113	284
Gross carrying amount		**51,906**		**1,171**	**147**	**53,224**
ECL impairment allowance	8	(159)	-	(9)	(133)	(301)
Net loans and advances		**51,747**	**-**	**1,162**	**14**	**52,923**

	2022	2021
Impairment (ECL) coverage ratio	0.53 %	0.57 %
Stage 3 coverage ratio	(80.89)%	90.48 %

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Staff debtors– On Balance Sheet

Group and Company - 2022	Notes	Stage 1 Performing	Stage 2 Performing	Stage 2 Non-performing (past due)	Stage 3 Non-performing	Total
		P'000	P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired						
Standard		10,365	-	-	1	10,366
Special mention/Watch list		3,326	-	25	-	3,351
Doubtful		-	-	-	29	29
Loss		-	-	-	238	238
Gross carrying amount		**13,691**		**25**	**268**	**13,984**
ECL impairment allowance	7	(109)	-	-	(80)	(193)
Net loans and advances		**13,582**	**-**	**21**	**18**	**13,791**

Company - 2021

	Notes	Stage 1 Performing	Stage 2 Performing	Stage 2 Non-performing (past due)	Stage 3 Non-performing	Total
		P'000	P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired						
Standard		13,780	-	-	-	13,780
Special mention/Watch list		872	-	16	-	888
Doubtful		-	-	-	62	62
Loss		-	-	-	388	388
Gross carrying amount		**14,652**		**16**	**450**	**15,118**
ECL impairment allowance	7	(118)	-	(2)	(136)	(256)
Net loans and advances		**14,534**	**-**	**14**	**314**	**14,862**

The Group and Company has revised the presentation of this disclosure to include short-term loans and advances to customers and staff loans which were historically excluded as their expected credit losses were not considered material. Effective 2022, these are incorporated in the disclosure for completeness purposes. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

	2022	2021
Impairment (ECL) coverage ratio	1.38 %	1.69 %
Stage 3 coverage ratio	29.85 %	30.22 %

Non performing loans ratio	2022	2021
Non performing loans (NPL) ratio	7.21 %	7.32 %

Mortgage loans and advances to customers – Off Balance Sheet
Off balance sheet mortgage loans advances pertain to the loan commitments disclosed as per note 20.

Group and Company - 2022	Notes	Stage 1	Stage 2	Stage 3	Total
		P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired					
ECL impairment allowance	20	19	-	-	19
		19	**-**	**-**	**19**

Company - 2021

Assets at amortised cost individually impaired ECL impairment allowance	Notes	Stage 1	Stage 2	Stage 3	Total
		P'000	P'000	P'000	P'000
Assets at amortised cost individually impaired					
ECL impairment allowance	20	5	-	-	5
		5	**-**	**-**	**5**

Amounts arising from ECL

Loss allowance

The following table shows a reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Mortgage loans and advances to customers

Group and Company - 2022

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2021	**594**	**862**	**52,855**	**54,311**
Transfers:				
To stage 1	6,849	(241)	(6,608)	-
To stage 2	(39)	10,561	(10,522)	-
To stage 3	(22)	(221)	243	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(6,835)	-	-	(6,835)
Transfer to stage 2	-	(9,798)	-	(9,798)
Transfer to stage 3	-	-	3,280	3,280
Net re-measurement of loss allowance: No change in staging	(141)	(100)	11,239	10,998
New financial assets originated	62	74	281	417
Financial assets that have been derecognised	(13)	(1)	(1,133)	(1,147)
Balance as at 31 December 2022	**455**	**1,136**	**49,635**	**51,226**

Mortgage loans and advances to customers

Company - 2021

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2020	**4,985**	**4,767**	**68,896**	**78,648**
Transfers:				
To stage 1	17,376	(2,185)	(15,191)	-
To stage 2	(228)	7,879	(7,651)	-
To stage 3	(89)	(984)	1,073	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(17,374)	-	-	(17,374)
Transfer to stage 2	-	(7,220)	-	(7,220)
Transfer to stage 3	-	-	2,392	2,392
Net re-measurement of loss allowance: No change in staging	(4,037)	(1,363)	7,068	1,668
New financial assets originated	18	-	-	18
Financial assets that have been derecognised	(57)	(32)	(117)	(206)
Write-offs	-	-	(3,615)	(3,615)
Balance as at 31 December 2021	**594**	**862**	**52,855**	**54,311**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Short-term loans and advances to customers

Group and Company - 2022

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2021	**159**	**9**	**133**	**301**
Transfers:				
To stage 1	1	(1)	-	-
To stage 3	(27)	(4)	32	1
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(1)	-	-	(1)
Transfer to stage 2	-	1	-	1
Transfer to stage 3	-	-	(9)	(9)
Net re-measurement of loss allowance: No change in staging	(13)	-	(26)	(39)
New financial assets originated	84	7	3	94
Financial assets that have been derecognised	(38)	(3)	(6)	(47)
Balance as at 31 December 2022	**165**	**9**	**127**	**301**

Company - 2021

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2020	**243**	**6**	**556**	**805**
Transfers:				
To stage 1	52	(1)	(51)	-
To stage 2	(1)	1	-	-
To stage 3	(60)	(3)	63	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(52)	-	-	(52)
Transfer to stage 2	-	1	-	1
Transfer to stage 3	-	-	(60)	(60)
Net re-measurement of loss allowance: No change in staging	(53)	-	(354)	(407)
New financial assets originated	93	6	2	101
Financial assets that have been derecognised	(63)	(1)	(23)	(87)
Balance as at 31 December 2021	**159**	**9**	**133**	**301**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Staff debtors

Group and Company - 2022

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2021	**118**	**2**	**136**	**256**
Transfers:				
To stage 1	109	-	(109)	-
To stage 3	(2)	(2)	4	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(110)	-	-	(110)
Transfer to stage 2	-	4	-	4
Transfer to stage 3	-	-	48	48
Net re-measurement of loss allowance: No change in staging	(42)	-	1	(41)
New financial assets originated	38	-	-	38
Financial assets that have been derecognised	(2)	-	-	(2)
Balance as at 31 December 2022	**109**	**4**	**80**	**193**

Company - 2021

	Stage 1	Stage 2	Stage 3	Total
	P'000	**P'000**	**P'000**	**P'000**
Assets at amortised cost individually impaired Balance as at 31 December 2020	**137**	**3**	**82**	**222**
Transfers:				
To stage 1	3	(3)	-	-
To stage 3	(2)	-	2	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(3)	-	-	(3)
Transfer to stage 2	-	2	-	2
Transfer to stage 3	-	-	27	27
Net re-measurement of loss allowance: No change in staging	(98)	-	4	(94)
New financial assets originated	81	-	21	102
Balance as at 31 December 2021	**118**	**2**	**136**	**256**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The Group and Company has revised the presentation of this disclosure to include short-term loans and advances to customers and staff loans which were historically excluded as their expected credit losses were not considered material. Effective 2022, these are incorporated in the disclosure for completeness purposes. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position.

Write-offs

The contractual amount outstanding on financial assets that were written off during the period ended 31 December 2022 and that are still subject to enforcement activity is P6,076.000 million (2021: P 8.473 million**).**

Modified financial assets

There were no modifications to the original contractual cash flows on financial assets during the current or previous year.

Credit-impaired financial assets - mortgage loans and advances to customers

The following table shows a reconciliation of changes in net carrying amount of credit-impaired mortgage loans and advances to customers.

	2022	2022	2021
	P'000	P'000	P'000
Opening balance	281,415	281,415	334,897
Change in allowance for impairment	(15,235)	(15,235)	(19,764)
Classified as credit-impaired during the year	109,422	109,422	90,880
Transferred to not credit-impaired during the year	(91,368)	(91,368)	(124,598)
Closing balance	**284,234**	**284,234**	**281,415**
Number of Credit- impaired mortgage loans and advances	790	790	612
Net repayments - recoveries	(713)	(713)	(1,515)

	Stage 3 - 2022		Stage 3 - 2021	
	Gross carrying amount	ECL	Gross carrying amount	ECL
Less than:	P’000	P’000	P’000	P’000
90 dpd (for Stage 3)	45,525	6,320	44,737	6,794
More than:				
90 dpd (for Stage 3)	238,709	43,315	236,678	46,061
Total	**284,234**	**49,635**	**281,415**	**52,855**
Break down of Stage 3 exposures:				
No longer impaired but in cure period	45,525	6,320	44,737	6,794
Other	238,709	43,315	236,678	46,061
Total	**284,234**	**49,635**	**281,415**	**52,855**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Credit-impaired financial assets - short-term loans and advances to customers

	2022	2022	2021
	P'000	P'000	P'000
Opening balance	849	849	147
Change in allowance for impairment	(624)	(624)	(60)
Classified as credit-impaired during the year	60	60	107
Transferred to not credit-impaired during the year	(138)	(138)	(37)
Closing balance	**147**	**147**	**157**
Number of Credit- impaired short-term loans and advances	9,261	9,261	12,156

Credit-impaired financial assets - staff loans

	2022	2022	2021
	P'000	P'000	P'000
Opening balance	450	450	274
Change in allowance for impairment	5	5	14
Classified as credit-impaired during the year	175	175	163
Transferred to not credit-impaired during the year	(362)	(362)	(1)
Closing balance	**268**	**268**	**450**
Number of Credit- impaired staff loans and advances	15	15	14

The Group and Company has revised the presentation of this disclosure to include short-term loans and advances to customers and staff loans which were historically excluded as their expected credit losses were not considered material. Effective 2022, these are incorporated in the disclosure for completeness purposes. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact of the statement of financial position.

44.Bank balances

The Group and Company held bank balances of P483 million as at 31 December 2022 (2021: P 440 million) which represents its maximum credit exposure on these assets. The bank balances are held with licensed financial institutions and consist of current, call and fixed deposit accounts. Management has set exposure limits for the different financial institutions to minimise credit risk on bank balances.

Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash equivalents are placed with financial institutions registered in Botswana. Banks in Botswana are not rated but are subsidiaries of major international or foreign registered institutions and are regulated by Bank of Botswana.

Collateral

The Group and Company holds collateral against loans and advances to customers in the form of mortgage interests over property, cash and guarantees. Estimates of collateral fair values are assessed at the time of borrowing and are updated every three years or when a loan is individually assessed as impaired or when the customer requests further facilities against the same bond.

The following table sets out the types of collateral held against different types of financial assets.

Type of credit exposure	Note	Type of collateral held
Mortgage loans and advances to customers	10	Property
Short term loans and advances to customers	8	Cash deposit

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

		Group	Company	
Figures in Pula thousand		2022	2022	2021
LTV ratio	**Note**	**P'000**	**P'000**	**P'000**
Less than 60%		1,373,077	1,373,077	1,324,968
60 - 70%		555,528	555,528	571,452
70 - 80%		529,351	529,351	532,329
80 - 90%		657,716	657,716	642,750
More than 90%		121,345	121,345	109,474
Total	10	**3,237,017**	**3,237,017**	**3,180,973**

		2022	**2022**	**2021**
Loan commitments	**Note**	**P'000**	**P'000**	**P'000**
Less than 60%		14,005	14,005	8,473
60 - 70%		9,459	9,459	2,738
70 - 80%		12,347	12,347	2,861
80 - 90%		32,697	32,697	10,477
More than 90%		30	30	30
Total	36	**68,538**	**68,538**	**24,579**

An estimate of the fair value of collateral and other tangible security enhancements held against financial assets is summarised as follows:

Collateral for loans and advances to customers	**2022**	**2022**	**2021**
	P'000	**P'000**	**P'000**
Against Stage 2 and 3 facility - Property	1,434,616	1,434,616	1,172,971
Against Stage 1 loans facility - Property	5,739,608	5,739,608	5,786,951
Against short-term loans not impaired - cash deposit	257,353	257,353	247,571
Total	**7,431,577**	**7,431,577**	**7,207,493**
Carrying amount as a proportion of collateral cover	45 %	45 %	45 %

Loan commitments	**2022**	**2022**	**2021**
	P'000	**P'000**	**P'000**
Against general impairment - property (Stage 1)	298,009	298,009	92,269
Carrying amount as a proportion of collateral cover	23%	23%	27 %

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The tables below show maximum exposure to credit risk by class of financial assets. They also show the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates) and the net exposure to credit.

		Fair value of collateral and credit enhancements held				
Group and Company - 2022	**Maximum exposure to credit**	**Cash**	**Property**	**Total collateral**	**Net exposure**	**Associated ECL**
Financial assets						
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	41,092	-	-	-	41,092	-
Investments with banks	448,033	-	-	-	448,033	-
Short-term loans and advances to customers	56,002	257,353	-	257,353	(201,351)	301
Mortgage loans and advances to customers	3,185,791	-	7,174,224	7,174,224	(3,988,433)	51,226
Other assets	14,266	-	-	-	14,266	193
Total assets	**3,745,184**	**257,353**	**7,174,224**	**7,431,577**	**(3,686,393)**	**51,720**
Liabilities						
Customers' savings and fixed deposit accounts	2,292,676	-	-	-	2,292,676	-
Paid up and subscription savings	425,070	-	-	-	425,070	-
Borrowings	589,193	-	-	-	589,193	-
Debentures	102,235	-	-	-	102,235	-
Other liabilities	8,985	-	-	-	8,985	-
Total liabilities	**3,418,159**	**-**	**-**	**-**	**3,418,159**	**-**

		Fair value of collateral and credit enhancements held				
Company - 2021	**Maximum exposure to credit**	**Cash**	**Property**	**Total collateral**	**Net exposure**	**Associated ECL**
Financial assets						
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	133,380	-	-	-	133,380	-
Investments with banks	311,520	-	-	-	311,520	-
Short-term loans and advances to customers	52,923	247,571	-	247,571	(194,648)	301
Mortgage loans and advances to customers	3,126,662	-	6,959,922	6,959,922	(3,833,260)	54,311
Other assets	14,966	-	-	-	14,966	256
Total assets	**3,639,451**	**247,571**	**6,959,922**	**7,207,493**	**(3,568,042)**	**54,868**
Liabilities						
Customers' savings and fixed deposit accounts	2,084,962	-	-	-	2,084,962	-
Paid up and subscription savings	426,102	-	-	-	426,102	-
Borrowings	667,893	-	-	-	667,893	-
Debentures	101,974	-	-	-	101,974	-
Other liabilities	9,922	-	-	-	9,922	-
Total liabilities	**3,290,853**	**-**	**-**	**-**	**3,290,853**	**-**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The tables below provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECL when the expected value of the collateral, measured using multiple economic scenarios, is greater than the LGD. However, the Stage 3 ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is lower than fair value at the reporting date.

Type of collateral or credit enhancement for stage 3 assets

	Fair value of collateral and credit enhancements held the base case scenario						
Group and Company - 2022	**Maximum exposure to credit**	**Property**	**Other**	**Surplus collateral**	**Total collateral**	**Net exposure**	**Associated ECL**
Loans and advances to customers	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Residential mortgages	266,480	622,901	-	-	622,901	(356,421)	48,273
Corporate mortgages	17,754	54,946	-	-	54,946	(37,192)	1,362
Total financial assets at amortised cost	**284,234**	**677,847**	**-**	**-**	**677,847**	**(393,613)**	**49,635**

	Fair value of collateral and credit enhancements held the base case scenario						
Company - 2021	**Maximum exposure to credit**	**Property**	**Other**	**Surplus collateral**	**Total collateral**	**Net exposure**	**Associated ECL**
Loans and advances to customers	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Residential mortgages	266,646	630,977	-	-	630,977	(364,331)	51,818
Corporate mortgages	14,769	42,418	-	-	42,418	(27,649)	1,037
Total financial assets at amortised cost	**281,415**	**673,395**	**-**	**-**	**673,395**	**(391,980)**	**52,855**

Concentrations of credit risk

The Group and Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and loan commitments is shown below.

	Mortgage loans and advances to customers		**Loan commitments**	
	2022	**2021**	**2022**	**2021**
	P'000	**P'000**	**P'000**	**P'000**
Carrying amount or amount committed **Concentration by sector**	**3,237,017**	**3,180,973**	**68,538**	**24,579**
Residential	2,981,476	2,914,590	57,958	21,957
Commercial	255,541	266,383	10,580	2,622
	3,237,017	**3,180,973**	**68,538**	**24,579**
Concentration by location				
Urban	3,146,506	3,087,617	67,934	23,929
Rural	90,511	93,356	604	650
	3,237,017	**3,180,973**	**68,538**	**24,579**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Liquidity risk

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 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. Assets and Liabilities Management Committee (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 Group and Company meets all its statutory and regulatory requirements within the stipulated times;
- To ensure that the Group and Company meets its business obligations promptly and within committed deadlines;
- To safeguard and preserve the reputation of the Group and Company;
- To ensure that the interests of all key stakeholders are protected and preserved;
- To prevent adverse impact on the profitability of the Group and 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 Group and 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 Group 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 Group and 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 Group and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have enough liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and Company's reputation. The Group and Company is exposed to daily calls on its available cash resources from deposits withdrawals, loan draw downs and commitments as and when they fall due.

Experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The Group and Company sets limits on the minimum proportion of maturing funds available to meet such calls and borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The liquidity position of the Group and Company is monitored on a daily basis. For regulatory purposes, the Banking Act, requires the Group and Company to maintain certain proportions of its liabilities in liquid assets. The Group and Company also submits a monthly report to the Bank of Botswana which includes the liquidity position.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Exposure to liquidity risk

The Group and Company was liquid as at 31 December 2022 with a total statutory liquid assets to deposits ratio of 17.65% (31 December 2021: 17.35%) compared to a Bank of Botswana required minimum of 10%.

The liquidity requirement is managed in accordance with the Banking Act which states that every Group and Company shall, after making provisions to meet its liabilities, from day to day hold an amount in cash or on authorised deposits or in approved investments as security for prompt repayment of fixed period and subscription shares and of deposits, loans and overdrafts and for the payment of interest accrued thereon.

The Board of Directors sets limits on the level of risk that may be accepted. The Banking Act sets limits within which the Group and Company should operate as regards to concentrations of assets and liabilities. However, use of this limit regime does not prevent losses outside of these limits in the event of more significant market movements.

The table below discloses the undiscounted cash flows of the Group and Company's assets and liabilities on the basis of their earliest possible contractual maturity. The Group and Company's expected cash flows on some financial assets and liabilities vary significantly from contractual cash flows. For example, demand deposits from customers are expected to maintain a stable and increasing balance, and unrecognised loan commitments are not all expected to be drawn down immediately. Also, retail mortgage loans have an original contractual maturity of up to 30 years but with lower average expected maturities as customers take advantage of early repayment periods. As part of the management of its liquidity risk arising from financial liabilities, the Group and Company holds liquid assets comprising cash and cash equivalents to meet liquidity requirements.

The summary of the Group and Company's contractual liquidity gap position is as follows:

Group - 2022	**On demand**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	41,092	-	-	-	-	41,092
Investments with banks	221,987	229,931	-	-	-	451,918
Other assets	1,511	1,083	4,275	11,272	-	18,141
Short-term loans and advances to customers	2,235	4,439	19,447	66,905	-	93,026
Mortgage loans and advances to customers	40,325	80,400	360,349	1,833,188	3,816,485	6,130,747
Total assets	**307,150**	**315,853**	**384,071**	**1,911,365**	**3,816,485**	**6,734,924**
Liabilities						
Customers' savings and fixed deposit accounts	406,335	407,421	821,288	688,460	86,305	2,409,809
Paid up and subscription savings	55,014	1,691	343,583	20,640	4,805	425,733
Borrowings	78,203	12,744	253,572	317,392	21,885	683,796
Debentures	-	-	6,828	27,329	105,658	139,815
Lease liabilities	-	650	1,951	11,437	6,997	21,035
Other liabilities	8,985	-	-	-	-	8,985
Total liabilities	**548,537**	**422,506**	**1,427,222**	**1,065,258**	**225,650**	**3,689,173**
Commitments	**1,968**	**46,285**	**20,286**	**-**	**-**	**68,539**
Net liquidity gap	**(243,355)**	**(152,939)**	**(1,063,437)**	**846,107**	**3,590,835**	**2,977,212**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The summary of the Group and Company's contractual liquidity gap position is as follows:

Company - 2022	**On demand**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	41,092	-	-	-	-	41,092
Investments with banks	221,987	229,931	-	-	-	451,918
Balance due from related company	1,036	-	-	-	-	1,036
Other assets	1,511	1,083	4,275	11,272	-	18,141
Short-term loans and advances to customers	2,235	4,439	19,447	66,905	-	93,026
Mortgage loans and advances to customers	40,325	80,400	360,349	1,833,188	3,816,485	6,130,747
Total assets	**308,186**	**315,853**	**384,071**	**1,911,365**	**3,816,485**	**6,735,960**
Liabilities						
Customers' savings and fixed deposit accounts	408,821	407,421	821,288	688,460	86,305	2,412,295
Paid up and subscription savings	55,014	1,691	343,583	20,640	4,805	425,733
Borrowings	78,203	12,744	253,572	317,392	21,885	683,796
Debentures	-	-	6,828	27,329	105,658	139,815
Lease liabilities	-	650	1,951	11,437	6,997	21,035
Other liabilities	8,789	-	-	-	-	8,789
Total liabilities	**550,827**	**422,506**	**1,427,222**	**1,065,258**	**225,650**	**3,691,463**
Commitments	**1,968**	**46,285**	**20,286**	**-**	**-**	**68,540**
Net liquidity gap	**(244,609)**	**(152,939)**	**(1,063,437)**	**846,107**	**3,590,835**	**2,975,957**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Company - 2021	On demand	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	133,380	-	-	-	-	133,380
Investments with banks	250,730	14,437	48,317	-	-	313,484
Other assets	680	1,123	4,456	12,071	-	18,330
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
Total assets	**423,734**	**93,286**	**400,846**	**1,754,125**	**3,430,964**	**6,102,955**
Liabilities						
Customers' savings and fixed deposit accounts	485,843	427,211	563,605	95,955	583,107	2,155,721
Paid up and subscription savings	48,116	2,533	6,078	363,803	5,671	426,201
Borrowings	79,498	31,516	147,516	473,698	70,583	802,811
Debentures	-	-	5,303	21,220	108,959	135,482
Lease liabilities	-	670	2,009	12,741	11,965	27,385
Other liabilities	9,691	-	-	-	-	9,691
Total liabilities	**623,148**	**461,930**	**724,511**	**967,417**	**780,285**	**3,557,291**
Commitments	**793**	**5,773**	**18,013**	**-**	**-**	**24,579**
Net liquidity gap	**(200,207)**	**(374,417)**	**(341,678)**	**786,708**	**2,650,679**	**2,521,085**

The Group and Company has revised the presentation of this disclosure to include commitments which were historically considered elsewhere in the financial statements. Effective 2022, these are incorporated in the disclosure. The comparative information for 2021 has been revised to align to the improved presentation. This does not have any impact on the statement of financial position.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Market risk

The Group and Company does not have a trading book and was therefore not exposed to Market Risk in the Trading Book. The Group and Company has developed a framework for the management of Interest Rate in the Banking Book (IRRBB). IRRBB is the risk that the Group and 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). Interest rates are managed principally through monitoring interest rate gaps and by having pre- approved limits for re-pricing bands. The impact of rate changes is measured, managed, monitored and reported on a monthly basis 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 Treasury Department in its day-to-day monitoring activities. Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from non-trading activities. The Group and Company in derivatives to manage and hedge it's own risk.

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.

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 faster 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 Group and Company is negatively affected by lower interest rates due to the asset sensitivity of its statement of financial position.

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

Interest rate 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 Group and 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. Financial instruments subject to interest rate risk are summarised as follows:

Group and Company	2022	2021
	P'000	P'000
Total financial assets	3,789,977	3,691,948
Total financial liabilities	(3,409,145)	(3,280,931)
	380,832	**411,017**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

The table below presents the Group and Company's sensitivity to a change in interest rate assuming that all other variables remain constant. The impact would be a maximum increase or decrease of the same amount.

Pre-tax profit	7,617	8,101
Equity	**7,617**	**8,101**

An interest rate shock approach is used to express interest rate risk in the banking book in terms of Pillar II capital. A shock of 200 basis points is applied. The shock percentage used is reconsidered annually in accordance with the ICAAP. The simulation is done on a monthly basis to verify that the maximum loss potential is within the limit set by management.

The profile of assets and liabilities and the interest sensitivity gap is as follows:

Group and Company - 2022	0 - 3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Total
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	35,134	-	-	-	-	35,134
Investments with banks	221,225	226,808	-	-	-	448,033
Other assets	13,791	-	-	-	-	13,791
Mortgage loans and advances to customers	3,224,353	14	73	3,888	8,689	3,237,017
Short-term loans and advances to customers	56,002	-	-	-	-	56,002
Total assets	**3,550,505**	**226,822**	**73**	**3,888**	**8,689**	**3,789,977**
Liabilities						
Customers' savings and fixed deposit accounts	419,361	881,178	765,186	226,921	-	2,292,646
Paid up and subscription savings	425,070	-	-	-	-	425,070
Borrowings	152,820	73,460	161,928	180,318	20,668	589,194
Debentures	-	-	102,235	-	-	102,235
Total liabilities	**997,251**	**954,638**	**1,029,349**	**407,239**	**20,668**	**3,409,145**
Net interest sensitivity gap	**2,553,254**	**(727,816)**	**(1,029,276)**	**(403,351)**	**(11,979)**	**380,832**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Company -2021	**0 - 3 months**	**3-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Assets	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	128,320	-	-	-	-	128,320
Investments with banks	243,350	14,281	53,889	-	-	311,520
Other assets	18,212	-	-	-	-	18,212
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
Total assets	**3,608,461**	**14,281**	**53,930**	**4,961**	**10,315**	**3,691,948**
Liabilities						
Customers' savings and fixed deposit accounts	534,332	982,373	489,668	78,589	-	2,084,962
Paid up and subscription savings	426,102	-	-	-	-	426,102
Borrowings	158,227	87,219	57,494	300,092	64,861	667,893
Debentures	-	-	101,974	-	-	101,974
Total liabilities	**1,118,661**	**1,069,592**	**649,136**	**378,681**	**64,861**	**3,280,931**
Net interest sensitivity gap	**2,489,800**	**(1,055,311)**	**(595,206)**	**(373,720)**	**(54,546)**	**411,017**

The Group and Company has three types of contracts as described below:

i. Variable - All these instruments reprice on the first bucket as they change interest rate or reprice immediately.

ii. Floating - These reprice on reprice dates in line with the repricing dates stated in their contracts/pricing supplements.

iii. Fixed - These reprice at maturity in line with the reinvestment risk nature of a maturing instrument.

Capital risk

The policy framework represents the capital management approach to be followed by BBSBL to ensure alignment with the principles of the Internal Capital Adequacy Assessment Process (ICAAP) detailed by the Bank of Botswana. The purpose of the Capital Management Framework is to provide a clearly defined, documented and mandatory approach and principles in the capital planning process. As indicated throughout this document, Capital is managed by BBSBL through the use of target capital ranges set above the regulatory minimum thereby creating a buffer. The size of the buffer is derived from stress testing to ensure the capital base can sustain unforeseen events affecting the Group's capital base or risk weighted assets.

Capital Management

To monitor the adequacy of its capital, the Group and Company uses ratios prescribed by Bank of Botswana, per the Basel Capital Adequacy Framework (Basel II).These ratios measure Capital adequacy by comparing the Group and Company's eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk (risk weighted assets).

For prudential purposes, Tier 1 Capital consists of Ordinary shares together with the statutory and retained earnings reserves. The Group and Company's policy is to maintain a strong capital base so as to sustain growth for the business.

The Group and Company has complied with regulatory capital requirements. The ratio was 26.56% as at 31 December 2022, (2021: 28.49%) the minimum capital adequacy ratio set by Bank of Botswana was 12.5% at the reporting date.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

		2022	2022	2021
Capital base	**Note**	**P'000**	**P'000**	**P'000**
Stated capital	23	487,453	487,453	487,453
Other revenue reserves		6,577	6,577	31,924
Regulatory adjustment		(18,061)	(18,061)	(16,150)
Tier I capital		**475,969**	**475,969**	**503,227**
Unpublished current year's loss		(20,045)	(21,155)	(25,347)
Collective impairment		795	795	692
Tier II capital		**(19,250)**	**(20,360)**	**(24,655)**
Total capital		**456,719**	**455,609**	**478,572**
Risk weighted assets				
Credit risk weighted assets		1,596,871	1,597,953	1,552,402
Operational risk weighted assets		122,950	122,258	127,240
Total risk weighted assets		**1,719,821**	**1,720,211**	**1,679,642**
Capital adequacy ratio		26.56 %	26.49 %	28.49 %
Regulatory requirement		12.5 %	12.5 %	12.5 %

Business and Strategic Risk

Strategic risks can be defined as the uncertainties and untapped opportunities embedded in BBSBL's strategic intent and how well they are executed. Strategic risks may arise from making poor business decisions, from the poor execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment. Strategic Risk Management (SRM) is a process performed by management for identifying, assessing and managing risks and uncertainties, affected by internal and external events, scenarios and risks that could impede the Group and Company's ability to achieve its strategy and strategic objectives.

Business risk is the possibility that the Group and Company will have lower than anticipated profits or experience a loss rather than achieving a profit. Business risk is influenced by numerous factors, including sales volumes, pricing, cost of funds, competition, the overall economic climate and government regulations.

The Business and Strategic Risk Control Framework sets out the governance, controls, policies, guidance and procedures for the management of the risk. This framework is in support of the Operational Risk and Enterprise-wide Risk Management (ERM) policies which require a robust risk control and reporting framework to be in place to ensure that the associated risk is managed effectively, and to enable the Board to assess the Group and Company's compliance with these policies. The Projects and Strategy Department is required to implement and comply with the requirements of the document and should retain evidence to support this compliance.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group and Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group and Company's operations and are faced by all business entities. The Group and Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group and Company's reputation with overall cost effectiveness and to avoid control procedures that restricts initiative and creativity.

Risk Control Self-Assessment (RCSA) RCSAs is a forward-looking risk assessment tool used to analyse the Group and Company's risk profile. The RCSA process is conducted within the Group and 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, strikes 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.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Group and Company standards for the management of operational risk in the following areas:
- Requirements from appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where there is effective compliance with the Group and Company's standards, is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with Management of the respective business units to which these relate, and summaries are submitted to the Executive Management and Board Audit Committee of the Group and Company.

Information Technology (IT) Risk

IT Risk refers to the risk associated with running and changing the IT infrastructure in support of business operations and ongoing strategy. Examples of IT risks includes:
- Non-availability of IT systems;
- Inadequate design & testing of new and changed IT Solutions;
- Inadequate system security as well as Cyber crime security;

IT Risk Management refers to the identification, measurement, management, monitoring and reporting of IT Risk within the Group and Company. The IT Risk Control Framework will enable BBSBL to:
- Establish a sound and robust technology risk management framework;
- Strengthen system security, reliability, resiliency, and recoverability; and
- Deploy strong authentication to protect customer data, transactions and systems.

The Group and Company has developed a number of KRIs to monitor IT Risk. The primary responsibility for the management of IT risk resides with the IT Department. The Chief Information Officer is responsible for ensuring that this framework has been embedded.

Business Continuity Management

Business Continuity Management (BCM) is a holistic management process that identifies potential impacts that threaten an organisation and provides a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value creating activities. A comprehensive BCM comprises of the following:
- Emergency Response – Procedures that address the initial reaction and activities to ensure the safety of all personnel as well as to work with emergency personnel to minimise or contain the adverse situation;
- Crisis Management– Activities aimed at protecting the reputation of the organisation through effective internal and external communication during and after a disaster;
- Business Continuity– Activities dealing specifically with the resumption of specific tasks necessary to recover critical functions / processes in the event of a disaster, including personnel, essential records, equipment supplies, work space, communication facilities, work stations, mail services, etc.; and
- ICT Continuity – Activities and programmes designed to return the information technology services, which support the business operations, to an acceptable condition and level of operation.
- Business resilience is premised on Business Continuity Plans (BCP), which is essentially a collection of procedures and supporting information which must be compiled, developed and maintained. The BCP must facilitate the restoration of critical business processes during or subsequent to a business disruption.

Brand and Reputational Risk Framework

Brand Risk Management is defined as "the understanding, identification and subsequent management of things that could impact the BBSBL 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 BBSBL's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions"

The Group and Company considers the considerable financial and reputational benefits to which effective operational risk measurement contributes to:
- Reducing operational risk events and the associated financial losses
- Strengthening the BBSBL brand
- Meeting regulatory expectations
- Pro-active management and follow-up of large operational risk events

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

- Tightening up ineffective controls
- Management of key indicators breaching their thresholds
- Setting operational risk appetite and tolerance levels
- Establishing roles and responsibilities and delegation of authority
- Defining and allocation of ownership of operational risks.

The primary responsibility for the management of Brand and Reputational Risk resides with the Marketing and Communication Department. The Head of Marketing and Communications is responsible for ensuring that this framework has been embedded within the business unit. In addition, all staff have a responsibility for the effective management of this risk and must report appropriately any known breakdowns in control, or any potential exposures that may result in financial or reputational loss.

Legal Risk

Legal risk means any of the following types of risk:
- The risk that the Group and Company's business will not be conducted in accordance with applicable laws and regulations;
- The risk that the Group and Company's contractual arrangements, whether with customers or third parties, will either not be enforceable as intended or may be enforced against the Group and Company in an adverse way;
- The risk that the Group and Company's intellectual property (such as copyright, trademarks, trade names, domain names, know-how, designs, inventions, patents, trade secrets or processes) will not be legally protected in all jurisdictions where the Group and Company does business or is likely to do business;
- The risk that the Group and Company will receive inappropriate or poor legal advice from non-accredited lawyers and/or that the Group and Company will have increased legal expenditure in its efforts to manage legal risk; and
- The risk that the Group and Company's litigation is not managed effectively.

Legal Risk Management refers to the identification, measurement, management, monitoring and reporting of Legal Risk within the Group and Company. The primary responsibility for the management of Compliance Risk resides with the Secretariat, legal and compliance department.

Compliance Risk

Compliance risk is exposure to legal penalties, financial forfeiture and material loss BBSBL faces when it fails to act in accordance with laws and regulations governing its operations, internal policies and/or prescribed best practices. The primary responsibility for the management of Compliance Risk resides with the Secretariat legal and compliance department. As part of the process of managing Compliance Risk, the Group and Company has a dedicated Compliance Officer who operates with an approved Compliance Risk Universe. The monitoring of Compliance Risk is done mainly using Key Risk Indicators developed within the Risk Department as part of the RCSA process.

Financial Reporting and Taxation Risk

Financial Reporting Risk is the risk that the Group and Company's internal controls over financial reporting may fail to detect a misstatement or omission within the Group's external financial reporting (excluding regulatory reporting) that exceeds Management's risk appetite. The higher this risk is, the more it lowers the price of the assets that depend on the Group's financial health. Financial reporting risk can be pervasive anywhere in the Group and Company and can arise from an event or condition, external and internal factors, and decisions and choices made. Financial reporting risk may also arise from inaction.

Tax Risk is defined as a failure to comply with tax laws and practice (or provide accordingly where appropriate) leading to a financial loss and/or separately a loss of reputation. Financial loss may include unprovided tax charges, unanticipated payments of tax, interest and penalties or missed opportunities. It is accepted that tax risk also relates to lost opportunity cost and that eliminating all downside risk would affect the Group and Company's competitive advantage. Thus, it is necessary to manage the Group and Company's tax risk actively. Reputational risk includes adverse publicity or adverse impact on relationships with regulatory authorities, investors, customers and employees in any of the jurisdictions where the Group and Company conducts its business. Tax risk management is not necessarily about minimising tax risk but rather about a determination of the level of risk that is acceptable to the Group and Company and putting in place processes and procedures that ensure tax risks do not exceed acceptable levels.

The primary responsibility for the management of Financial Reporting and Taxation risk resides with the Finance Department. The Head of Finance is responsible for ensuring that this framework has been embedded within the business unit. In addition, all staff have a responsibility for the effective management of this risk and must report appropriately any known breakdowns in control, or any potential exposures that may result in financial or reputational loss. The monitoring of the risk is done through KRIs agreed with the Risk Department.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

People Risk

People are the single most important asset in BBSBL but they are also the most vulnerable asset. People Risk encompasses all of the risks BBSBL is exposed to by virtue of being an employer. Examples of such risks include the following:
- Lack of appropriate people resources
- Failure to manage performance and reward
- Failure to comply with health & safety requirements
- Failure to comply with labour legislation in Botswana
- Unauthorised/inappropriate activity

People Risk Management refers to the identification, measurement, management, monitoring and reporting of People Risk within the Group and Company. A pro-active and strategic approach to managing People Risks will result in the following:
- Improved employee productivity
- Reduced rates of absenteeism
- Improved employee health and wellbeing
- A positive employer brand that helps with attracting new talent
- Increased employee motivation
- Improved employee retention

The Group and Company has developed a number of KRIs to monitor People Risk. The Group and Company also has in place a Board Sub-committee, Human Resources, Remuneration 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. 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.

Projects Risk

Projects Risk is defined as the implementation of a framework which includes strict governance and robust methodologies supporting the management of major and minor change at BBSBL and their associated risks. This framework is supported by change methodologies which provides for a staged approach to change and further indicates accountabilities in terms of roles at all levels.

As projects are a regular part of the Group and Company's business, it stands to reason that they will incur a certain level of risk that the project objectives may not be achieved. Projects Risk Management refers to the identification, measurement, management, monitoring and reporting of Projects Risk within the Group and Company to ensure that project objectives are achieved. The primary responsibility for the management of Projects Risk resides with the Projects Office. The Head of the Projects and Strategy is responsible for ensuring that this framework has been embedded within the business unit.

Implementation of a robust business change lifecycle ensures that projects are managed using a standardised staged approach, called the Business Change Lifecycle (BCL). Depending on the degree of complexity, certainty of design, use of new architectures and repeatability, the BCL may be applied in full or in condensed form, the Significant approach (five separate stages), the Standard approach (four stages) or the Simple approach (three stages). Alternatively, if there is an enhancement to existing systems with no introduction of new functionality the Small Enhancement methodology is applied.

Corporate Sustainability Risk

Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate Sustainability Risk is defined as the failure to consider corporate sustainability drivers (economic, social, environmental) in both strategic and operational decision making and could result in BBSBL suffering reputational damage, financial penalties and loss of credibility in the eyes of stakeholders.
The primary responsibility for the management of Corporate Sustainability Risk resides with the Head of Projects and Strategy.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Classification of assets and liabilities

The tables below set out the Group and Company's classification of assets and Liabilities. These are not presented at their fairvalue on the Group and Company's statement of financial position for which fairvalue approximates the carrying amounts.

The carrying amounts of the financial instruments are deemed to approximate fairvalue.

Cash and cash equivalents, investments with banks, balances due from related company and other assets and liabilities

Cash and cash equivalents, investments with banks, balances due from related company and other financial assets and liabilities are short-term in nature, as such, the carrying amounts are deemed to closely approximate fair value.

Short-term loans and advances to customers

The fairvalue of short-term loans and advances is deemed to closely approximate the carrying value. This is due to the instruments included in this classification bearing variable rate. The instruments are for a period not exceeding five years and reprice in line with changes in prime lending rate.

Mortgage loans and advances to customers

The carrying amount of loans and advances is deemed to closely approximate the carrying value. This is due to the instruments included in this classification bearing variable rate and only an insignificant portion bearing fixed rate. Loans bearing variable rates reprice in line with changes in prime lending rate.

Deposits and borrowings

Deposits are generally of a short-term nature where the impact of discounting would be negligible. Borrowings includes bonds which are linked to the Monetary Policy Rate (MoPR). They reprice in line with changes in the Monetary Policy Rate. For both deposits and borrowings, the counterparties are not related to the Bank and terms were concluded on market terms, hence, the carrying amount approximates market values.

Debentures

The carrying amount of debebtures is deemed to closely approximate the carrying amount. Their pricing is alligned to the prime-lending rate. Therefore, they reprice in line with changes in the prime lending rate.

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Group - 2022	Note(s)	At amortised cost P'000	Other non-financial assets/ liabilities P'000	Current assets and liabilities P'000	Non-current assets and liabilities P'000	Total carrying amount P'000
Cash and cash equivalents	3	41,092	-	41,092	-	41,092
Investments with banks	4	448,033	-	448,033	-	448,033
Other assets	7	14,226	15,562	22,594	7,234	29,828
Short-term loans and advances to customers	8	56,002	-	26,121	29,881	56,002
Mortgage loans and advances to customers	10	3,185,791	-	481,074	2,704,717	3,185,791
		3,745,184	**15,562**	**1,018,914**	**2,741,832**	**3,760,746**
Customers' savings and fixed deposit accounts	15	2,292,676	-	1,635,044	657,632	2,292,676
Paid up and subscription savings	16	425,070	-	400,288	24,782	425,070
Borrowings	17	589,193	-	344,519	244,674	589,193
Debentures	18	102,235	-	6,828	95,407	102,235
Other liabilities	20	8,985	27,113	19,926	16,172	36,098
		3,418,159	**27,113**	**2,406,605**	**1,038,667**	**3,445,272**

Company - 2022	Note(s)	At amortised cost P'000	Other non-financial assets/ liabilities P'000	Current assets and liabilities P'000	Non-current assets and liabilities P'000	Total carrying amount P'000
Cash and cash equivalents	3	41,092	-	41,092	-	41,092
Investments with banks	4	448,033	-	448,033	-	448,033
Balance due from related company		1,036	-	1,036	-	1,036
Other assets	7	14,266	15,456	22,488	7,234	29,722
Short-term loans and advances to customers	8	56,002	-	26,121	29,881	56,002
Mortgage loans and advances to customers	10	3,185,791	-	481,074	2,704,717	3,185,791
		3,746,220	**15,456**	**1,019,844**	**2,741,832**	**3,761,676**
Customers' savings and fixed deposit accounts	15	2,295,164	-	1,637,530	657,634	2,295,164
Paid up and subscription savings	16	425,070	-	400,288	24,782	425,070
Borrowings	17	589,193	-	344,519	244,674	589,193
Debentures	18	102,235	-	6,828	95,407	102,235
Other liabilities	20	8,789	26,998	19,615	16,172	35,787
		3,420,451	**26,998**	**2,408,780**	**1,148,849**	**3,447,449**

Notes to the Consolidated And Separate Financial Statements

44. Financial instruments and risk management (continued)

Company - 2021	**Note(s)**	**At amortised cost**	**Other non-financial assets/ liabilities**	**Current assets and liabilities**	**Non-current assets and liabilities**	**Total carrying amount**
		P'000	**P'000**	**P'000**	**P'000**	**P'000**
Cash and cash equivalents	3	133,380	-	133,380	-	133,380
Investments with banks	4	311,520	-	311,520	-	311,520
Other assets	7	14,966	10,968	17,885	8,049	25,934
Short-term loans and advances to customers	8	52,923	-	25,572	27,351	52,923
Mortgage loans and advances to customers	10	3,126,662	-	439,171	2,687,491	3,126,662
		3,639,451	**10,968**	**927,528**	**2,722,891**	**3,650,419**
Customers' savings and fixed deposit accounts	15	2,084,962	-	1,476,659	608,303	2,084,962
Paid up and subscription savings	16	426,102	-	56,727	369,375	426,102
Borrowings	17	667,893	-	344,519	323,374	667,893
Debentures	18	101,974	-	6,828	95,146	101,974
Other liabilities	20	9,922	22,541	18,077	14,386	32,463
		3,290,853	**22,541**	**1,902,810**	**1,410,584**	**3,313,394**

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Mortgage products.
Our reputation in the mortgage business is unparalleled. Many homes and businesses in Botswana have been financed by us, both in urban and rural areas. In fact, BBS Bank is the only local bank that has appetite to finance mortgages in rural areas. We have now gone further: Limits for rural areas have been increased making it easier for our people to build anywhere in the country.
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