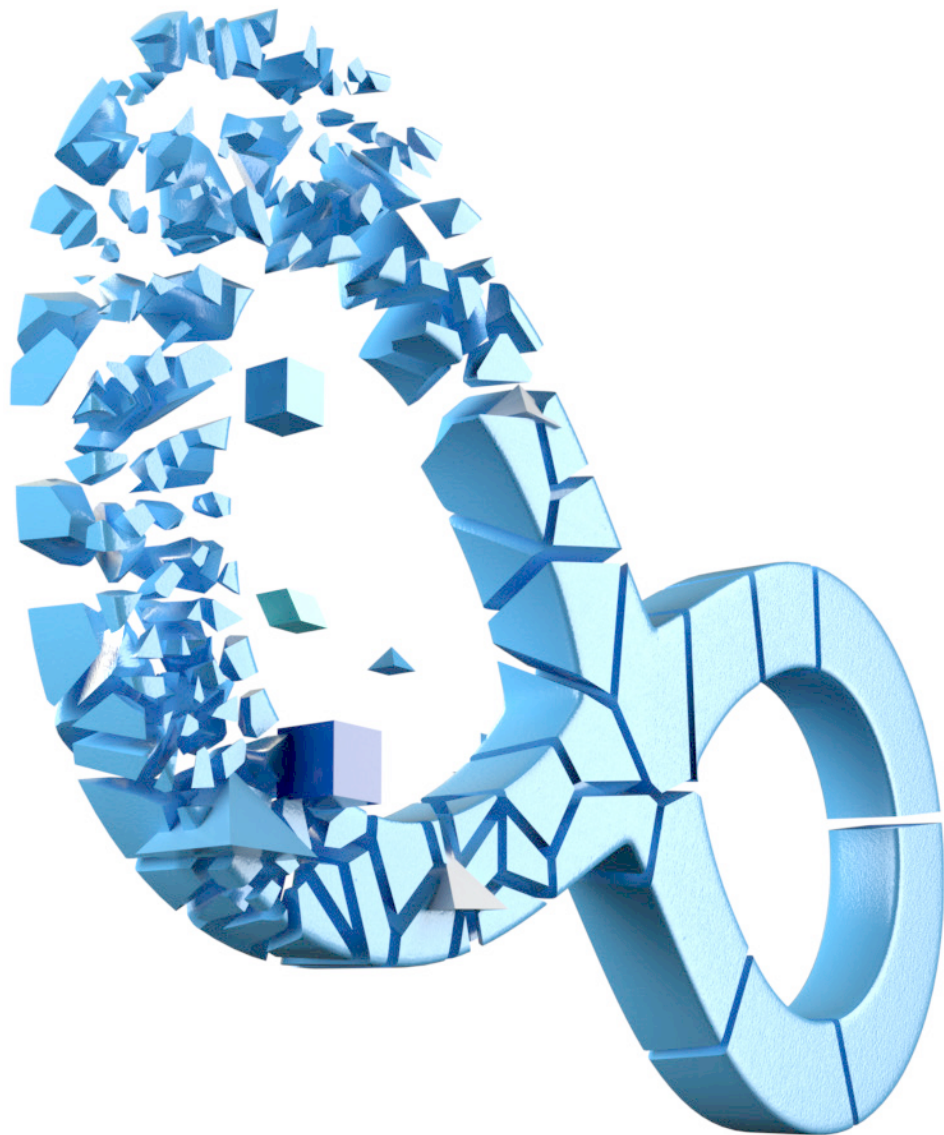


BBS Limited Annual Report 2018



**Together, Towards
Tomorrow**

Claim your **FREE BBS** **Limited Shares!**

Long standing BBS Limited Shareholders were allocated shares in BBS Ltd as part of its privatisation exercise. However, the shares are in a trust account because Shareholders have not come forward to claim them.

The affected shareholders are those who had opened either Indefinite Period, Paid Up or Subscription Share accounts a year or more before the Special General Meeting to privatise BBS which was held in August 2017.

Call 3631551/96 or visit the nearest Branch to claim your shares!.



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FIVE YEAR SUMMARY

Analysis of Amounts	Dec 2018 P'000	Mar 2018 P'000	Mar 2017 P'000	Mar 2016 P'000	Mar 2015 P'000
Deposits (Ordinary, Special Savings, Letsibogo, Tlamelo, Lerako, Paid Up Savings, Subscription Savings and Indefinite Savings)	1,285,317	376,615	396,253	558,699	581,082
Fixed deposits	884,347	898,180	734,731	747,143	445,369
Advances (mortgages and short loans)	3,274,858	3,186,492	3,199,264	3,152,025	3,010,432
All classes of shares	487,014	1,472,917	1,381,328	1,350,322	1,307,830
Analysis of Account holdings					
Number of mortgage bond holders	5,655	5,632	5,772	5,780	5,723
Number of short term loan account holders	6,439	7,195	6,824	6,939	7,020
Number of paid up savings account holders	46,114	46,033	45,923	45,142	44,227
Number of subscription savings account holders	5,968	5,848	5,787	5,825	5,684
Number of fixed deposit account holders	137	114	149	326	130
Number of savings account holders	125,951	125,180	125,986	123,636	122,766
	190,264	190,002	190,441	187,648	185,550

VALUE ADDED STATEMENT

for the period end 31 December 2018

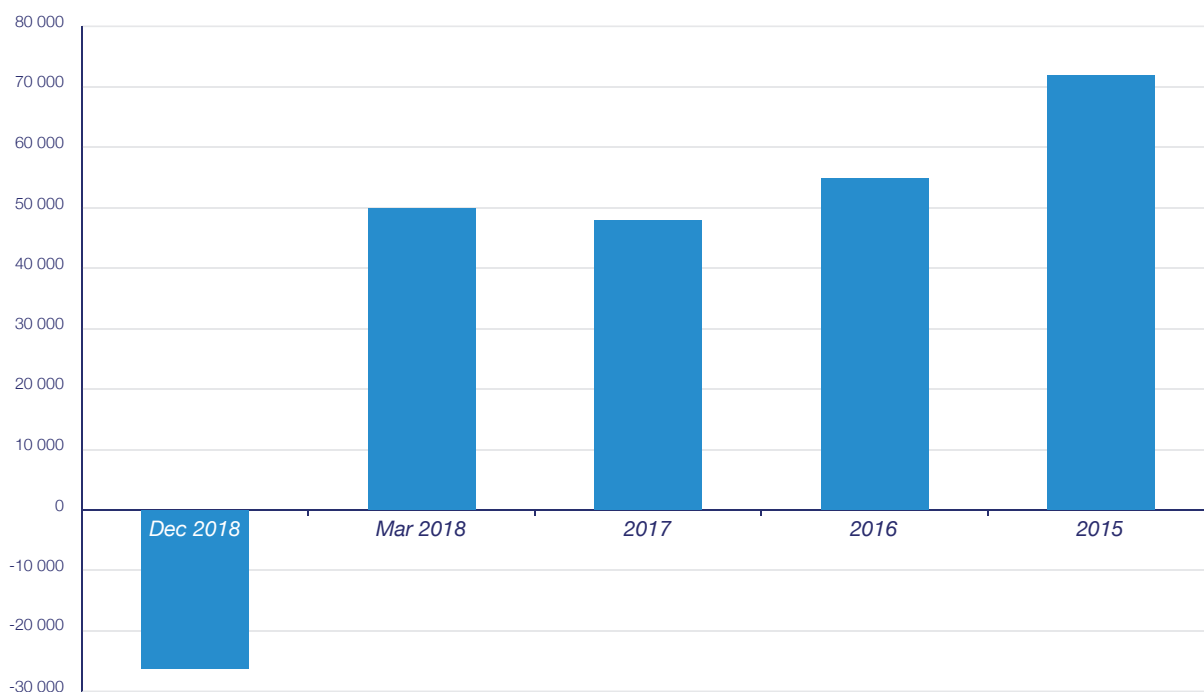
	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Value created		
Income from lending and banking activities	235,762	324,282
Cost of services	(129,385)	(136,363)
Value created by operations	106,377	187,919
Non-operating income	3,526	4,855
Operating expenditure excluding staff costs and depreciation	(69,018)	(59,982)
	40,885	132,792
Value distributed		
Employees - Salaries and benefits	55,599	70,777
Shareholders-Dividends	-	57,803
	55,599	128,580
Value retained		
Retained income	(54,512)	(7,863)
Depreciation	11,479	12,074
IFRS 9 adjustment - day 1	28,321	-
	(14,713)	4,211
Total value distributed and retained	40,887	132,791

PERFORMANCE HIGHLIGHTS

for the period ended 31 December 2018

	Dec 2018	Mar 2018	2017	2016	2015
(Loss)/ profit for the period	(26,191)	49,941	47,885	54,906	71,949
	Dec 2018	Mar 2018	2017	2016	2015
Earnings per share (thebe)	(4.9)	5.5	5.4	6.6	10.4
	Dec 2018	Mar 2018	2017	2016	2015
Dividend per share (thebe)	-	6.1	6.6	7.0	7.6
	Dec 2018	Mar 2018	2017	2016	2015
Total assets (P'000)	4,031,264	4,206,837	3,652,630	4,087,441	3,496,451
	Dec 2018	Mar 2018	2017	2016	2015
Total liabilities (P'000)	3,461,913	3,049,246	2,560,183	3,009,242	2,451,136

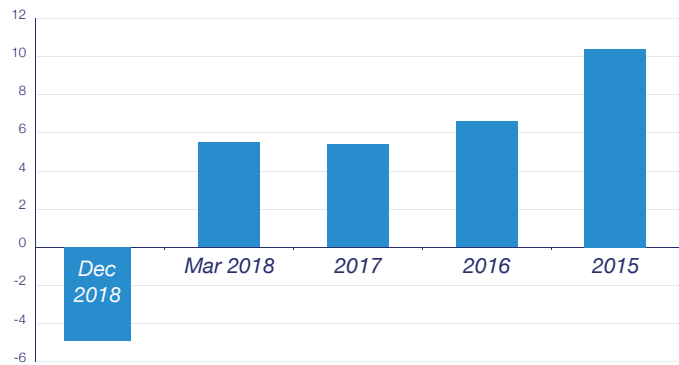
(LOSS)/ PROFIT FOR THE PERIOD/ YEAR (P'000)



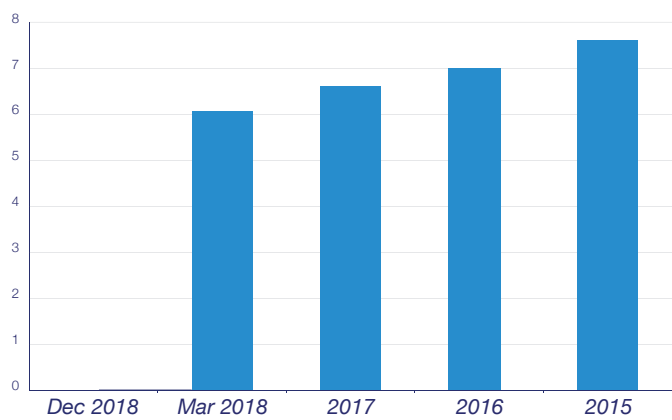
PERFORMANCE HIGHLIGHTS (Continued)

for the period ended 31 December 2018

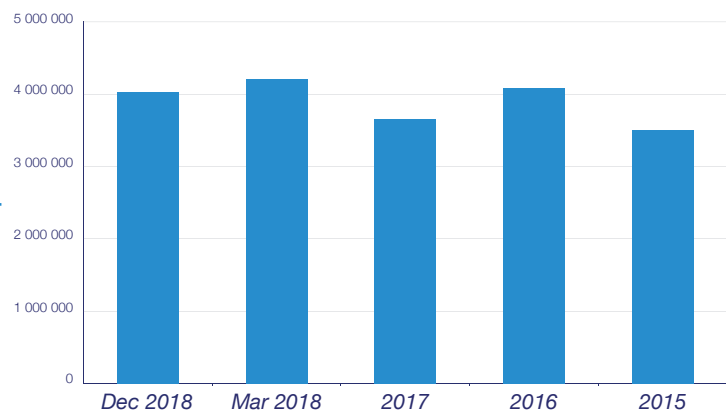
EARNINGS PER SHARE (THEBE)



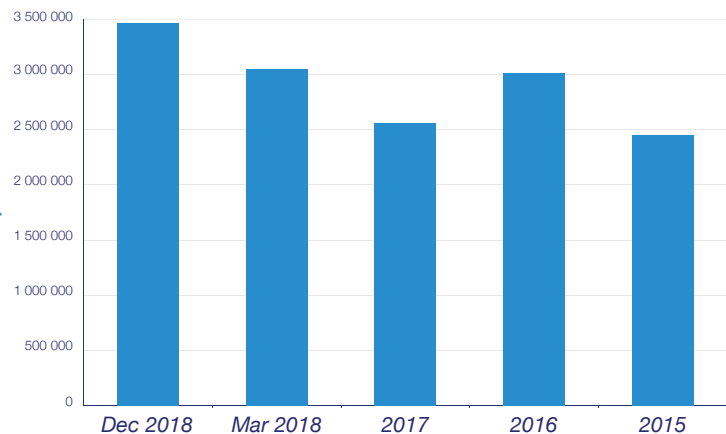
DIVIDEND PER SHARE (THEBE)



TOTAL ASSETS (P'000)



TOTAL LIABILITIES (P'000)



ABOUT US

BBS Limited was incorporated on 26 April 2018 as part of its commercialisation process having previously operated as Botswana Building Society which had been in existence since 13 December 1976 with assets of only P4, 108,000 after three months of business as at 31 March 1977. Its assets consisted of Government stock of P200, 000, advances of P2, 505,000 and cash and investments amounting to P1, 264,800.

The advances comprised 488 mortgages taken over from the then United Building Society of South Africa established in November 1971 and had operated as a branch. Only nine new home loans were advanced in its first three months of operation. The liabilities consisted of P2, 644,700 in capital, mostly subscribed to by Government in shares, a statutory reserve of a mere P200, and retained earnings of P1, 900. Savings and Fixed Deposits accounted for P1, 388,700, with creditors and provisions making up the balance.

During its first ten years of operation, the then Botswana Building Society was restricted by law to lend only against the security of immovable urban property. The Building Societies Act was amended in April 1986 to permit lending in rural areas. Since then, and subsequently as BBS Limited, the number of mortgages in respect of rural properties has grown to 562, representing 9% of its mortgage book, compared with 5,036 advances in urban areas and 687 advances in semi-urban areas, as at 31 December 2018.

Up until 1986, the then Botswana Building Society restricted its lending only to residential properties, as a matter of policy. It was only in 1986 that the then Society ventured into commercial lending for the first time, and now BBS Limited has on its books 212 advances on commercial undertakings. These represent 9% of BBS Limited's mortgage book in terms of value.

The exceptional growth of BBS Limited cumulatively since its period as a building society can best be measured by the phenomenal increase in its reserves, from only P2,100 in March 1977 to P82 million in December 2018. The Statutory Reserve alone increased from only P200 to P113 million over the years.

Mission

To provide attractive financial products and services that create value for our stakeholders.

Vision

To be the regional leader in the provision of financial services solutions. To be the regional leader in the provision of financial services solutions.

Values

BBS Limited has 5 values. The BBS Limited values do not just describe the company's culture, but also encapsulate the spirit of *Botho*. BBS Limited therefore, understands that everything it does is about Botswana and hence our values give substance to what we are and why we are proud to serve within our society. BBS Limited is committed to the following key values which are fundamental to our business philosophy.

Respect

To serve customers with honour and esteem

Integrity

To be ethical and trustworthy in the way we conduct business

Innovation

To be creative in the way we do business

Service Excellence

To be the premier provider of financial services

Team Work

To work together towards a common goal

Annual Report Available

 Book

 PDF Download at www.bbs.co.bw

BOARD OF DIRECTORS

1. Ms. Pelani D. Siwawa-Ndai
Chairperson (From 02 April 2019)

2. Mr. Pius K. Molefe
Managing Director

3. Mr. Michael M. Tlhagwane
Director

4. Mr. James M. Kamyuka
Director

5. Mr. Kgalalelo N. Monthe
Director

6. Mr. Richard Molosiwa
Director



Mr. Taolelo M. Moselehi retired from the BBSL Board on 02 April 2019.

EXECUTIVE MANAGEMENT



Mr. Pius K. Molefe - Managing Director

1. Mr. Sipho H. Showa
Head of Communications & Marketing, Company Secretary

4. Ms. Thelma O' Reilly
Head of Banking

7. Ms. Keona B. Mphethe
Head of Corporate Services

2. Ms. Pearl C. Ramokate - Nkoane
Head of Finance

5. Mr. Washington Chidiwa
Acting Head of Information Technology

8. Ms. Julia S. Ntshole
Head of Risk

3. Ms. Punah G. Moyo
Head of Projects & Strategy

6. Ms. Susan L. Ntsima
Head of Credit

9. Ms. Palesa A. Semele
Head of Internal Audit

10. Mr. Jabulani M. Mangole
Head of Operations






01.


DIRECTORS' REPORT



■ KEY TAKEAWAYS FROM YEAR 2018



We achieved a growth of 3.18% in loans and advances from P3.099 billion in March 2018 to P3.197 billion in December 2018.



DIRECTORS' REPORT

for the 9 months period ended 31 December 2018

The Directors have pleasure in presenting their report together with the financial statements of BBS Limited ("the Company") for the 9 months period ended 31 December 2018.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Building Societies Act (Cap 42:03).

Business activities

The Company is primarily involved in property finance and the provision of financial services.

Change in financial period end

On 26 April 2018 Botswana Building Society went through a demutualisation process by converting from a building society to a company limited by shares. Upon incorporation, the Company adopted a new financial year end of 31 December, as opposed to the 31 March year end for the building society. The financial statements, therefore cover a period of 9 months ended 31 December 2018.

Financial results and position

The Company's financial results and position are reflected in the financial statements set out on pages 34 to 121. The Company realised a 43% decrease in operating income from P193 million for the year ended 31 March 2018 to P110 million for the current period. A loss of P26 million was realised during the current period compared to a profit of P50 million for the year ended 31 March 2018.

Stated capital

The stated capital of BBS Limited changed from Indefinite period paid up shares to Ordinary shares upon demutualisation on 26 April 2018. The balance of the Ordinary shares amounted to P487 million as at 31 December 2018. The detail on shareholding is presented on note 39 of this report.

Directors' interest

The Directors do not hold shares directly or indirectly with the Company.

Dividends

No dividends were declared during the current period. In prior year dividends of P58 million were declared and paid to Indefinite Period Shareholders.

Board of directors as at 31 December 2018

1	Mr. Taolelo M. Mosetlhi	Chairman*
2	Mr. Pius K. Molefe	Managing Director
3	Ms. Pelani D. Siwawa-Ndai	Director**
4	Mr. James M. Kamyuka	Director
5	Mr. Michael M. Tlhagwane	Director
6	Mr. Kgalalelo N. Monthe	Director
7	Mr. Richard Molosiwa	Director

* Mr. Taolelo M. Mosetlhi, who was Board Chairman, retired from the BBSL Board on 02 April 2019.

**Ms. Pelani D. Siwawa-Ndai ascended to the position of Chairperson effective 02 April 2019.

Registered address

Plot 13108-112
Broadhurst
Gaborone, Botswana

Auditors

KPMG
Plot 67977, Off Tlokweng Road
Fairgrounds Office Park
Gaborone, Botswana

DIRECTORS' REPORT (Continued)

for the 9 months period ended 31 December 2018

Delays in issuance of the financial statements

The Company's audited financial statements for the period ended 31 December 2018 were due for release on 31 March 2019. However, this timeline was not met as a result of the post-implementation challenges experienced with the Company's core banking system which was implemented in the previous financial year. Because of the complex nature of the upgrade and the length of time since implementation, it took longer than expected to address the post-implementation issues, specifically those that had an impact on the financial statements of the Company.

While addressing the post-implementation issues, the Globus T24 system experienced bugs which affected some accounts. Management performed an exercise to quantify the level of errors in the financial statements, which required extensive investigations and effort to ensure significant matters are adequately dealt with and to eliminate any possibility of inaccurate financial reporting.

The audit of the financial statements was halted to provide Management an opportunity to investigate and address the system challenges. Management addressed the challenges by way of manual reconciliation processes which resulted in the auditors revising their audit approach to respond to the increased risk of error as a result of the manual processes. This required more work than initially planned due to large volumes of accounts which needed to be subjected to testing. The significant challenges that were addressed have been explained in more detail on note 10 of the financial statements. In addition,

- As part of its transitioning journey, the Company changed its financial year from 31 March to 31 December. This required certain processes to be refined and the timing of these was delayed due to the delayed release of the Company's financial statements for the year ended 31 March 2018. The timing of the conduct of the external audit was impacted as a result. This is the Company's first set of financial statements since the change of financial year.
- The Company implemented new accounting standards during the period. The process of implementation of these standards, especially IFRS 9 *Financial instruments*, required significant amount of effort and took time as a result.

Events occurring after the reporting date

Trading of shares

The trading of the BBS Limited shares was halted on the Over-The-Counter (OTC) trading platform of Botswana Stock Exchange Limited on 01 April 2019 pending the release of its audited financial results for the period ended 31 December 2018. The trading of the shares is expected to resume once the Company publishes the financial results.

Banking licence application

The banking licence application was submitted to Bank of Botswana (BoB) in May 2019. Due to delays in the finalisation of the BBS Limited financial statements for the period ended 31 December 2018 the application was voluntarily withdrawn in October 2019. The application will be updated and resubmitted once the 2019 financial statements have been published.

COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared COVID-19 outbreak a pandemic due to its rapid spread across the globe. The President of the Republic of Botswana declared a state of emergency for 6 months and a national lockdown for the whole of Botswana for 28 days with effect from 02 April 2020, for purposes of preventing, controlling and suppressing the spread of the virus. The national lockdown was extended by a further 7 days as considered necessary by the presidential COVID-19 task force. As at the date of publishing these financial statements, there were 48 reported cases of people infected with coronavirus in Botswana. Out of these, 24 are recoveries, 22 were transferred out of the country, one is deceased and one is an active case. On 16 June 2020 the number of probable cases had increased to 16 and out of these 10 were negative. Results of six others are still pending.

The COVID-19 pandemic occurred subsequent to the 31 December 2018 reporting period and will therefore not have an impact on the recognition and measurement of assets and liabilities in the financial statements of the Company for the period. However, the Directors have performed an assessment of the impact of the pandemic on the Company financial statements considering three different scenarios. The Directors' view is that the current uncertainties related to the COVID-19 virus does not result in a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

CHAIRPERSON'S STATEMENT



Dear Shareholders,

This is the first time in the history of BBS Limited that we have brought you audited financials of a particular financial year very late. The audit for the period ended 31 December 2018 was delayed by challenges we experienced with our core banking system, Globus T24. This was after we upgraded it in preparation for commercial banking operations. Admittedly, the system experienced some bugs following the upgrade resulting in the integrity of the numbers coming out of it being questioned. Apart from the delay in concluding the audit, the other consequence was that trading in our shares was suspended by the Botswana Stock Exchange Limited, resulting in you being inconvenienced. On behalf of the Board and Management, I would like to apologise most sincerely for the troubles you endured during this difficult time and, in the same breadth, thank you for your enduring patience and understanding that enabled us to get through the period.

We have put in place measures such as monitoring our core banking system on a daily basis as a way of identifying any irregularities.

I would like to point out that while the coronavirus ("COVID-19") pandemic broke out globally and in Botswana during the finalisation of this set of results, it will not have an impact on them and those for 2019. Its effect will only become evident on the 2020 financial performance.

Nonetheless, we voluntarily withdrew our banking licence application from the Bank of Botswana in October 2019 to enable us to resolve the system challenges. We now anticipate resubmitting the banking licence application in the last quarter of 2020. In the meantime, preparatory work to operate as a commercial bank is ongoing.

Despite a number of challenges experienced during the year under review, it was also a year characterised by a number of accomplishments of which we are proud.

As you are aware, a major milestone was achieved with the incorporation of BBS Limited on 26 April 2018 at which point other Directors and I constituted the new BBS Limited Board. Once again, we would like to thank you for buying a significant number of shares in the new entity. Becoming a company put us in a position to be able to apply for a commercial banking licence, something we could not legally do as a building society. We also changed our financial year end from 31 March to 31 December so that we are aligned to industry norms.

Further, we are finalising a new business strategy that is more attuned to the demands of a commercial bank. It has new products and services to suit the anticipated circumstances, including meeting your needs and those of the market. We are also alive to the fact that an effective business strategy is reliant on a robust information technology platform. That is why we upgraded our banking system, Globus T24, to a much more versatile and responsive version. As I indicated above, the upgraded banking platform is stabilising and we are confident that by the time the banking licence is issued, it would be functioning as we wish it to.

Financial performance

However, as previously communicated to you, all the above initiatives and many others require a significant financial investment. That is why for the financial year under review, our performance is not comparable to what you have been used to and the situation will subsist for the next 2 to 3 years. However, we expect the situation to improve as we gradually introduce new products and services.

The result for the period ended December 2018 is a loss of P29.611 million, relative to a profit of P49.941 million achieved in March 2018. I must point out that the loss is not because of poor performance but a change in BBSL's capital structure following its conversion to a company on 26 April 2018, as well as the effects of the implementation of a new accounting standard, IFRS 9. The indefinite period shares were converted to a savings product and earn interest expense as opposed to dividends. IFRS 9 also requires that the provision be calculated on expected loss as opposed to incurred loss and one has to take into account forward looking information before it impacts the business.

Nonetheless, we achieved a growth of 3.18% in loans and advances from P3.099 billion in March 2018 to P3.197 billion in December 2018.

Total savings and deposits increased from P1.802 billion in the last financial year ended March 2018 to P2.170 billion in December 2018, representing a movement of P367.668 million or 20%.

Despite the above performance, I would like to assure you that BBS Limited remains a very strong institution financially. With a capital adequacy ratio of 28.40% in December 2018, BBS Limited has more than adequate



CHAIRPERSON'S STATEMENT (Continued)

capital, much higher than the threshold of 15% as required by the Banking Act.

Way forward

You would have noted that our theme for the December 2018 Annual Report is "Together, towards tomorrow". Given the commitment and support you have given BBS Limited and its predecessor entity, the Board and Management are heartened that despite the challenges we are still to navigate until our business returns to profitability, we can count on your unstinting support. For our part, I can assure you that our commitment to the success of BBS Limited remains undiminished.



Ms. Pelani D. Siwawa-Ndai
Chairperson

PEGO YA GA MODULASETILO



Pego ya ga Modulasetilo

Ke lantlha mo ditsong tsa BBS Limited (“BBSL”) re lo rolela maduo a a dupilweng a madi morago ga nako. Go dupiwa ga dibuka tsa madi tsa ngwaga wa 2018 go ne ga diiwa ke mathata a re a itemogetseng mo maranyaneng a banka a Globus T24. Se se diragetse morago ga gore re tlhabolole maranyane a re ipaakanyetsa go dira re le banka. Re ne ra lemoga gore tiro e ya go tlhabolola maranyane a ga ya tsamaya jaaka gone go solofetswe mme se sa dira gore dipalo tse di neng di tswa mo go one di seka tsa nna le boleng. Mo godimo ga tiego ya go wediwa ga go dupiwa ga maduo a madi, kgoreletsego e nngwe e ne ya nna go seegelwa fa thoko ka go gweba ka diabe tsa BBS Limited ke ba Botswana Stock Exchange Limited (“BSEL”). Mo boemong jwa Khuduthamaga le Botsamaisi, ke kopa maitshwarelo ka kgoreletsego e lo neng lwa nna nayo mme gape ke lo lebogele bopelotelele jwa, le kemonokeng ya, lona, bobedi jo bo ile jwa re kgontsha go fenya mathata a re neng re lebagane nao.

Ke eletsa go tlhalosa gore e ne ya re re tswelletse ka go konetelela maduo a, Botswana le lefatshe ka bophara la tlhaselwa ke segajaja sa Corona mme se sa ama itsholelo fela thata. Le gale, ditlamorago tsa segajaja sa Corona mo kgwebong ya rona ga dina go bonala mo maduong a kana a ngwaga wa 2019. Di tla itshupa mo maduong a rona a ngwaga wa 2020.

Le fa gontse jalo, re ne ra boela morago kopo ya rona kwa Bankeng ya Botswana ya go fiwa tseletso ya go nna banka ka Diphilane 2019 gore re rarabolole mathata a Globus T24 pele. Re ikaelela go tsenya kopo e gape ngwaga wa 2020 o ya fifing. Ka jalo, paakanyo ya go dira re le banka e tswelletse.

Ntswa re ne ra nna le dikgoreletsego mo ngwageng o, re ne ra nna le diphithhelelo di le mmalwa tse re ipelang ka tsone. Jaaka lo itse, nngwe ya diphithhelelo tse dikgolo e ne ya nna ya go kwadisiwa ga BBS Limited go nna kompone ka Moranang a le 26, 2018. Ka nako eo, nna le bakaulengwe bangwe re ne ra tlhongwa maloko a Khuduthamaga ya BBS Limited. Ke eletsa gape go lo lebogela go reka diabe tsa BBSL ka dipalo tse di kwa godimo. Go nna kompone go ne ga re baya mo seemong sa go ka tsenya kopo ya go nna banka, selo se se neng se ka seke se kgonagale re santse re le mokgatlho. Re ne gape ra fetola ngwaga wa rona wa madi go tswa kwa go Mopitlo a le 31 go ya kwa go Sedimonthole a le 31 gore re tsamaelane le thulaganyo ya dikgwebo tse di tshwanang le ya rona.

Re mo letsholong gape la go wetsa tebelopele ya rona e e itebagantseng le diemo tsa banka. E na le ditlamelo tse disha tse di tla re kgontshang go fa badirisi tse ba di tlhokang. Re itse sentle gore re tle re kgone go lo tsetsa ditlamelo jaaka lo solofetse, re tshwanetse ra nna le maranyane a a itshetletseng. Ke ka mo re tlhabolotseng le go tiisa a T24. Jaaka ke buile, maranyane a T24 a a itshetlela mme re na le tshepo e e tletseng ya gore e tlaare re ya go nna banka, a bo a dira sentle fela thata.

Maduo

Mme re tshwanetse ra lemoga gore mananeo a otlhe a re a dirang a lopa madi a mantsi. Ke ka moo mo ngwageng o wa madi, re sa dira dipoelo jaaka e le tlwaelo. E bile seemo se se tla nna jaana mo dingwageng tse pedi go ya ko go tse tharo tse di tlang. Le fa go ntse jalo, re solofela fa seemo se tla tokafala fa re tswelletse ka go tsenya mo tirisong ditlamelo tse di sha.

Ka jalo, maduo a ngwaga o o wetseng ka Sedimonthole 2018 a supa tatlhegelo ya P26.191 million fa re tshwantshanya le poelo ya P49.941 million ya ngwaga o o wetseng ka Mopitlo 2018. Ke tshwanetse ka gatelela gore tatlhegelo ga ya bakiwa ke go sa dire sentle ga kgwebo. E bakilwe ke diphetogo tse kompone e tswelletseng go di itemogela e sale e nna teng ka Moranang a le 26, 2018. Diphetogo tse ke tse di jaaka go dirisiwa ga madi a kompone e nang nao le a e a adimang go duela ditsamaiso tsa yone le go ikgodisa, ga mmogo le tse di bakilweng ke melawana e mesha ya go sekaseka dipeeletso tsa madi ya IFRS 9. Ke ka moo e ne yare diabe tsa Indefinite Period di fetoga go nna matlole a polokelo tsa simolola go sa direng morokotso mme tsa simolola go tsala dipoelo tse di duelelwang ke BBS Limited. Melawana ya IFRS 9 gape e laela gore madi a makata dimetshe e lekanyediwe le ditatlhegelo tse di ka diragalang e seng tse di setseng di diragetse. Gape go ya ka IFRS 9, re tshwanetse ra akaretsa maduo a a bakiwang ke dilo dingwe tse di ka diragalang pele ga di diragalela kgwebo.

Le gale, re ne ra nna le kgolo ya 3.18% ya madi a adimilweng go aga kana go reka dikago go tswa kwa go P3.099 billion ka Mopitlo 2018 go ya kwa go P3.197 billion ka Sedimonthole 2018.

Madi a a bolokilweng a oketsegile go tswa kwa go P1.802 billion mo ngwageng o fetileng go ya kwa go P2.170 billion ka Sedimonthole 2018, e le koketsego ya

PEGO YA GA MODULASETILO (Tswelediso)

P367.668 million kana 20%.

Ntswa maduo a ntse jaana, ke batla go lo netefaletsa gore BBSL e ntse ke kgwebo e e motia. Re na le madi a fetileng selekano a makata dimetshe a 28.40% ka Sedimonthole 2018, go feta seelo se se beilweng mo molaong wa dibanka sa 15%.

Tebelopele

Ke dumela fa lo lemogile gore moonno wa pego ya rona wa re "Together, towards tomorrow" kana "Mmogo re gatela pele". Fa re lebile kemonokeng e lo e fang BBSL, le gone go tswa kwa morago e santse e le mokgatlho, Khuduthamaga le Botsamaisi ba tiisiwa moko gore re

ka baya mo go lona jaaka re tswelletse ka go dira gore BBSL e dire dipoelo gape. Mme le nna ke a lo tshepisa gore boineelo jwa rona mo go tihomamiseng gore BBSL e a atlega ga se jo bo temekang.



Ms. Pelani D. Siwawa-Ndai
Modulasetilo

MANAGING DIRECTOR'S STATEMENT



Managing Director's Statement

As the Chairperson Ms. Pelani Siwawa-Ndai states, this has been a most challenging period for BBS Limited (BBSL). Therefore, it would be remiss of me not to express my profound gratitude to you for your unwavering support and belief in BBSL when we were working to finalise the audit for the period ended December 2018. To be very frank, it was this positive attitude by yourselves, despite not being able to trade in your shares, that inspired us not to disappoint you any further and ensure that the exercise was completed successfully albeit out of time. Words are insufficient to express our gratitude. Thank you most sincerely. It gives us immense confidence and satisfaction that we can count on you at all times, good or challenging, now and in the future.

In the intervening period, Botswana, and indeed the rest of world, was struck by the coronavirus ("COVID-19") which negatively affected our economy significantly. His Excellency the President Dr. Mokgweetsi E. K. Masisi declared a state of emergency in order to curtail the spread of the pandemic. For our part, we also put in place interventions to protect Staff, Customers and other Stakeholders. For instance, we rotated Staff on weekly basis to avoid all of them potentially contracting the disease leading to a complete shutdown of the business, installed sanitisers and sick bays in all our premises, effected a social distancing policy in all our premises, were regularly in touch with the health authorities for information on matters we were not clear on, made sure that all employees that had travelled to affected areas were quarantined for 14 days and returned to work only upon issuance of a health clearance certificate, amongst other interventions. While COVID-19 will not have an effect on these financials and those for the period ended December 2019, it is necessary for me to point out that its negative effect will come through in the financials for the period that will end in December 2020.

Needless to say, we are now updating the banking licence application with the latest financial results and will resubmit it once we have finalised the audit for the period ended December 2019. Its Annual General Meeting will be called for soon after the one for the period ended December 2018. I am confident that this time around, there will be no need for us to recall the banking licence application and that, at the latest, by the second quarter of 2021 we should be operating as a commercial bank.

I would like to assure you that BBSL is in full mode to run the commercial bank in the event that the Bank of

Botswana issues it with a licence. In addition to what the Chairperson indicates in her Statement, for my part I have been involved in a great deal of preparatory work for this new phase of our business. Therefore, I am pleased to inform you that we have finalised a new organisational structure which is in line with the envisaged banking operation. The new organisational structure has a number of new roles that we believe will help us deliver on the mandate of the new bank.

As part of our future products and services offering, it suffices to say that we are also fine-tuning a new digitilisation strategy to ensure that we set ourselves apart from competitors as far as possible in terms of our offering. It is clear to us, for instance, that the cellphone has so much power in the hands of people, especially those in rural areas and those running small to micro and medium scale enterprises especially when they have digital bank accounts. Nonetheless, we believe that the digitilisation strategy will speak for itself when and after the new brand for the envisaged bank is launched.

Parallel to the above, we are also improving our physical infrastructure so that it is fit for purpose in respect of our future plans. During the year under review, we opened a new Branch at Palapye's Diphlane Mall at which the Bank of Botswana Governor, Mr. Moses Pelaelo, was the main guest. We also relocated the Selebi-Phikwe Branch from our building to a more visible and secure location in the Main Mall. The old Branch was not suitable for a banking operation and the building itself did not lend itself to reconfiguration. We simply had to relocate.

Our performance during the year under review was not positive. However, this should not unsettle you. While we did not make a profit, there were positive performance indicators such as:

- The return on average equity ratio improved from 17% in March 2018 to 19% in December 2018.
- We maintain a strong capital base with a capital adequacy ratio of 28.40% for the period ended December 2018.
- The liquid assets to total customer deposits ratio was 27% as at December 2018 much higher than the 10% limit set by the central bank.

We recorded an improvement in the Loans to Deposit ratio of 151% as at December 2018 from 177% in March 2018. This was due to the growth in our deposit

MANAGING DIRECTOR'S STATEMENT (Continued)

balances. We continued to work hard to increase our deposit base in order to reduce this ratio further and to meet the regulatory limit of 80%.

The cost to income ratio is 111% compared to 67% in the previous financial year. We anticipate a high cost to income ratio as we implement initiatives to transform the Company going forward, but this should improve in the medium term with the rollout and take-up of new products in a new banking environment.

The above positive indicators and your continued patronage of the business backed up by a robust business strategy, BBS Limited is projected to return to profitability once we roll out more products and services in the next few years.

BBS Limited employees have, as always and in particular during this transition period, been excellent in their disposition towards the interests of the business. I would like to thank them for continuing to be committed and focused while their personal futures in the organisation are still under consideration. I am currently engaging with them on this and would like to assure our Shareholders that we have a process that is fair and transparent to address interests of BBSL and Staff from a human resources perspective. We are bringing in new skills, improving the skills of the current employees and in some cases permitting some, especially those that have been in the business for a long time and have expressed the desire to move on, to do so. Their contribution to the growth of BBS Limited will remain invaluable and a source of guidance.

Fresh skills will ensure that we have the right performance culture in a challenging new business environment. Nonetheless, the majority of our employees are suitable for the new environment as was attested to by the skills audit exercise that was carried out by external technical experts.

I would also like to commend the BBS Limited Board for its steadfastness and wisdom during this unique period in the history of our business. The transformation has required a certain boldness and belief in the possibility of the future which the BBS Limited Board has been able to demonstrate, propelled by a very strong sense of history that is in the making. The BBSL Board was also very supportive and patient when we engaged in resolving issues that challenged the business.

Of, course, we continued to support a number of

community initiatives financially during the year such as the Albinism Society of Botswana, Sir Ketumile Masire Foundation, Kalahari Conservation Society and Letswai Primary School.

In conclusion, I would also like to thank you our Shareholders for your support and guidance during the period. Your presence of mind to resolve that BBS Limited become the first indigenous commercial bank was a watershed moment which will forever be etched in the history of the Republic of Botswana. We feel its full weight on our shoulders and it will inspire us to succeed.



Mr. Pius K. Molefe
Managing Director

PEGO YA GA MOOKAMEDI



Pego ya ga Mookamedi

Jaaka Modulasetilo wa Khuduthamaga Mme Pelani D. Siwawa-Ndai a bolela, sebaka se re tswang mo go sone se nnile le dikgwetlho tse di ntsi go gaisa mo ditsong tsa BBS Limited ("BBSL"). Ka jalo, go maleba gore le nna ke leboegele kemonokeng le tumelo ya lona e e kanakana mo go BBSL jaaka re ne re tshwaragane le namane e tona ya tiro go wetsa go dupiwa ga dibuka tsa madi tsa ngwaga o wetseng ka Sedimonthole 2018. Go bua boamaruri, ke kemonokeng e ya lona le ntswa lo ne lo kgoreletsegile lo sa kgone go gweba ka diabe tsa lona e e neng ya re tiisa moko gore re seka ra lo swabisa go ya pele ka jalo re weditse go dupiwa ga dibuka tsa madi le fa re dirile jalo morago ga nako. Re leboga go menagane bagaetsho. Go a re itumedisa go itse gore re ka lo ikanya ka dinako tsotlhe, go le thata kana go se thata.

Mo sebakeng sa re santse re dupa dibuka tsa madi tsa 2018, Botswana, ga mmogo le lefatshe ka bophara, o ne a welwa ke segajaja sa corona kana COVID-19 mme se sa ama kgolo ya itsholelo fela thata. Ke ka moo Motlotlegi Tautona Dr. Mokgweetsi E. K. Masisi a neng a tlhoma seemo sa Tshoganetso ka go emisa mesepele le ditirelo dingwe maikaelelo e le go kgaupetsa go anama ga segajaja se. Le rona re le BBSL re ne ra tsenya letsogo ka go dira gore babereki ba rona ba bereke ka go refosana beke le beke e sere botlhe ba iphitlhela ba amilwe ke segajaja e bo go re patika go tswala kgwebo. Re ne gape ra tsenya dibagabiki mo madirelong a rona otlhe tse di nang le molora o o haphegileng wa go tlhapa diatla kgapetsa kgapetsa, ra sika le dikamore mo mafelong otlhe a rona a kgwebo gore ope yo o nnang le dikai tsa COVID-19 a name a beilwe teng a letetse go tla go tsewa ke ba bongaka, ra baya matshwao a gore batho ba seka ba atamelana, go nna re botsa ba botsogo fa re sa tlhologanyeng teng, le gore badiri ka rona ba ba neng ba etetse kwa mafatsheng a a amilweng ke COVID-19 e re go boeng ga bone ba nne mo serubing malatsi a le losome le bone jaaka puso e ne e laetse mme e re go weleng ga one ba tle ka setlankana sa ba botsogo jalo jalo. Le fa segajaja sa COVID-19 se tla seke se ame maduo a kana a ngwaga wa 2019, manokonoko a jone a tla itshupa mo maduong a ngwaga wa 2020.

Le fa seemo sentse jalo, re sekaseka sesha kopo ya rona ya go dira re le banka ka go tsenya dipalo tsa bosheng mme re tla e isa kwa go ba Banka ya Botswana fa re sena go wetsa go dupa ngwaga wa madi wa Sedimonthole 2019 o phuthego ya one re tla e bitsang moragonyana fela ga e ya ngwaga wa Sedimonthole 2018. Ke na le tshepo ya gore morago ga se, ga renke re boele morago kopo ya go dira jaaka banka mme e tlaare mo tsamaong

ya 2021 e bo re na le tseletso.

Ke eletsa go lo tshepisa gore BBSL e mo seemong sa go dira jaaka banka fa e ka fiwa tseletso ke ba Banka ya Botswana. Ke ntse ke tshwaragane le namane e tona ya tiro e e jaaka go wediwa ga ditiro tse di sha, kgwebo yotlhe ka bophara go lebilwe ko re go yang. Re na le maemo a re senkeng re tsamae re nne nao a re dumelang fa a tlaare thusa go diragatsa maikemisetso a rona fa re le banka.

Re tseletse ka go lekodisa babereki ba BBSL ka diphetogo tse, go akarediwa le gore bangwe ba ba leng teng ba tla gololwa mo tirong gore re kgone go hira ba ba nang le dikitso tse di maleba. Le gale, bontsi jwa babereki ba rona ba mo seemong sa go dira mo bankeng.

Mo tirong ya rona ya go tlhabolola ditlamelo tsa rona, re tseletse ka go dira lenaneo le le tla re kgontshang go lo di rolela ka maranyane le gone gore re ipharologanye le ba re phadisanyang nabo. Re lemoga ka botlalo gore mogala wa lotheka o ka re thusa thata go isa ditlamelo tsa rona kwa bophareng jwa setshaba, segolobogolo kwa magaeng le ba dikgwebo tse di potlana.

Go boamaruri gore maduo a rona a ngwaga o a ko tlase mme se ga se a tshwanela go lo tsenya tsebetsebe. Le fa re sa dira dipoelo, go na le matlhasedi a a itumedisang mo maduong a, jaaka:

- Seelo se se fa gare sa dipoelo tsa kompone se tswantshangwa le se se fa gare sa dipeeletso se godile ka 17% ka Mopitlo 2018 go ya kwa go 19% ka Sedimonthole 2019.
- Re na le madi a mantsi ka seelo sa rona sa madi se ne se le kwa go 28.40% ka Sedimonthole 2018.
- Dithoto tsa rona tse di kgonang go fetolelwa mo mading ka bofefo di ne di le kwa go 27% ka Sedimonthole 2018 fa di tshwantshangwa le madi a bolokilweng ke sechaba mme di feta fela thata seelo sa 10% se se beilweng ke ba Banka ya Botswana.

Go nnile le tokafalo ya 151% ya madi a a bolokilweng ka Sedimonthole 2018 fa a tshwantshangwa le a a adimiliweng go na le 177% ka Mopitlo 2018. Tokafalo e e bakilweng ke koketsego ya madi a a bolokilweng ke sechaba. Re tseletse ka go dira ka natla go rotloetsa sechaba, dikompone le mekgatlho go boloka madi le rona gore seelo se tsewelele ka go tokafala ka jalo re kgone go fitlhelela seelo se se beilweng ke Banka ya

PEGO YA GA MOOKAMEDI (Tswelediso)

Botswana sa 80%.

Boturu jwa go tsamaisa kgwebo fa bo tshwantshangwa le letseno bo oketsegile ka 111% go na le 67% ngogola. Seemo se se tla tswelela ka go gola jaaka re tswelletse ka go diragatsa mananeo a go godisa kompone.

Tebelopele ya rona ke gore BBSL e boele mo go direng dipoelo mo dingwageng tse pedi go ya kwa go tse tharo tse di tlang.

Babereki ba BBSL, jaaka gale, ba ntse ba dira ka natla le ka boineelo mo nakong e ya diphetogo mme ke eletsang go ba lebogela kemonokeng ya bone. Ke mo dipuisanyong le bone mabapi le bokamoso jwa bone mo BBSL mme ke lo tshepisa gore re dira jalo re setse morago thulaganyo e nang le boammaruri, e le mo pontsheng e bile e sa gobebele. Re batla go thapa batho ba ba nang le dikitso tse di sha, go tlhabolola tsa bangwe ba ba leng teng le go letla ba ba eletsang go tsamaya, segolobogolo ba ba nang le lobaka lo lo leele ba direla BBSL, go dira jalo,

Go tshwanetse gore ke lebogele Khuduthamaga ya BBSL kemonokeng le dikgakololo tsa yone ka nako e e e faphegileng mo ditsong tsa kgwebo ya rona. Phetogo e e supile fa e tlhoka boeteledipele jo bo tebelopele e bile bo na le tshepo mo bokamosong, dintlha tse Khuduthamaga ya BBSL e di supileng.

Re ne ra tswelela ka go ema nokeng mekgatlho e e ikemetseng jaaka Albinism Society of Botswana, Sir Ketumile Masire Foundation, Kalahari Conservation Society le sekolo se se botlana sa Letswai kwa Zutshwa mo kgaolong ya Kgalagadi Bokone.

Kwa bokhutlong, ke eletsang go lebogela babeeletsi ba BBSL kemonokeng le dikgakololo tsa bone ka nako e. Go nna le tshosometso ya go tsaya tshwetso ya gore BBSL

e nne banka e ne ya nna tiragalo e go tla tsamayang go buiwa thata ka yone mo ditsong tsa Botswana. Tshwetso e e re tiisa moko gore re diragatse maikaelelo a yone. Khuduthamaga ya BBSL le yone e ne e re eme nokeng le go nna pelotelele jaaka re ne re tshwere tiro ya go rarabolola mathata a a neng a farafere kgwebo. Ka jalo, ke lebogela kemonokeng ya Khuduthamaga ka nako e.



Mr. Pius K. Molefe
Mookamedi

CORPORATE GOVERNANCE

Corporate Governance BBS Limited Board

BBS Limited (BBSL) has a Board of Directors appointed in terms of the Companies Act and its constitution. In terms of the BBS Limited Constitution, the minimum number of Directors is 5 while the maximum is 9, the majority of whom should be Non-Executive Directors. The BBSL Board, working closely with BBSL Executive Management, has committed itself to high levels of ethical leadership, integrity and governance. It thus understands that for BBSL to continue being a sustainable and profitable business and key stakeholder in the economy that delivers attractive returns to its shareholders and customers, it must ensure that it provides the necessary oversight to ensure that this reputation remains solid. The BBSL Board also recognises the need to have strong risk management frameworks and practices as this ensures that the business remains viable and competitive.

BBS Board Governance and Structure

The role of the BBSL Board is to provide strategic direction to the business of the Company guided by the various constitutive documents, including the Board Charter. In addition, the BBSL has adopted relevant corporate governance principles as laid out in the King Code on Corporate Governance to enhance its effectiveness.

Directors are:

- Ms. Pelani D. Siwawa-Ndai, Board Chairperson (effective 02 April 2019)
- Mr. Pius K. Molefe, Managing Director
- Mr. James M. Kamyuka
- Mr. Kgalalelo N. Monthe
- Mr. Michael M. Tlhagwane
- Mr. Richard Molosiwa

* The former Board Chairman Mr. Taolelo M. Mosetlhi resigned from the Board effective 02 April 2019 to pursue other interests.

In addition to the Board Charter, BBS Limited also has Charters to guide its various Committees being:

- Tender Committee
- Finance and Audit Committee
- Demutualisation Committee
- Human Resources and Remuneration Committee

Board and Board Committee meetings

The BBSL Board and its Committees respectively meet at least four times a year to consider business and strategic issues, consider and approve financial results, budgets, monitor progress of matters delegated to Executive Management and generally help set the tone of the business.

A summary of meetings and attendance by Directors for the financial year from April 2018 to December 2018 is indicated below.

BBS Limited Board attendance

	BBSL Board Meeting	Tender Committee Meeting	Human Resources and Remuneration Committee Meeting	Finance and Audit Committee Meeting	Demutualisation Committee Meeting	Tender and Human Resources & Remuneration Committees Combined Session	BBSL Annual General Meeting
Taolelo M. Mosetlhi (Chairman) *	9						1
Pius K. Molefe (Managing Director)	9	6	4		2	1	1
James M. Kamyuka	9	6		4	2	1	1
Richard Molosiwa	9	6	4		2	1	1
Pelani D. Siwawa-Ndai	9	6		4	2	1	1
Kgalalelo N. Monthe	7		4		2	1	1
Michael M. Tlhagwane	7		3	4	2	1	1

CORPORATE GOVERNANCE (Continued)

Finance and Audit Committee

The Finance and Audit Committee is chaired by Mr. Michael M. Tlhagwane. The other Committees Members are Mr. James M. Kamyuka and Mr. Kgalalelo N. Monthe.

Its role is to provide the Board with additional assurance regarding the efficacy and reliability of the financial and risk information. It also assists the Board in discharging its duties and the exercise of its oversight role in relation to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

Tender Committee

The Tender Committee is chaired by Mr. James M. Kamyuka. Its other Members are, Mr. Kgalalelo N. Monthe, Mr. Richard Molosiwa and the Managing Director Mr. Pius K. Molefe.

It assists the Board in discharging its duties by reviewing the BBSL's tendering and procurement policies and practices to ensure that the Tender Rules and Procurement Procedures are recognised as "best practice", that all tenders are conducted in a fair and ethical manner and that no conflict of interest exists with any Board Member or employee of the Company connected to the tendering and procurement processes.

Human Resources and Remuneration Committee

The Chairman of the Human Resources and Remuneration Committee ("HRRC") is Mr. Richard Molosiwa. Other Members are Mr. Michael M. Tlhagwane, Mr. Kgalalelo N. Monthe and the Managing Director Mr. Pius K. Molefe. The HRRC assists the Board of Directors ("Board") in human resources as well as remuneration related matters.

Demutualisation Committee

The Chairman of the Demutualisation Committee is Mr. Kgalalelo N. Monthe. It has as its other Members being Mr. Pius K. Molefe, Managing Director, Mr. Richard Molosiwa, Mr. Michael M. Tlhagwane and Mr. James M. Kamyuka.

The Demutualisation Committee's role is to provide oversight on the implementation of the BBSL's demutualisation strategy.

Resignations and re-appointments

There were none during the period to December 2018. However, as already stated in this Report, the former Board Chairperson Mr. Taolelo M. Mosetlhi resigned on

02 April 2019 to pursue other interests.

Director's remuneration

BBS Limited Board fees are structured as follows:
Board Meeting fees

- Board Chairman- P12,000.00
- Other Directors- P7,500.00

Board Committee fees

- Committee Chairman- P7,000.00
- Other Directors- P6,000.00

Board Retainer

- Board Chairman- P60,000.00 per annum
- Other Directors- P30,000.00 per annum

During the year under review, a total of P1,099,878 was paid towards Board fees and related expenses compared to P1,233,247.00 in the previous year.

Conflict interest

BBS Limited Directors are required to notify the company, through the Company Secretary, in reasonable time of conflicts or potential conflicts of interest that they may have in relation to their dealings with the business.

In addition, as a matter of entrenched practice, BBS Limited Directors declare conflicts of interest, if any, at each of their meetings.

Further, BBS Limited Directors are required to declare their shareholding in other entities and in the Company every year in line with corporate governance requirements. This information is also submitted to the Bank of Botswana as per its oversight role over BBS Limited as mandated by the Ministry of Finance and Economic Development.

Communication with stakeholders

The BBSL Board is committed to ensuring that various BBSL stakeholders, including shareholders, are kept informed of necessary information pertaining to the functioning of the business. One of the ways of doing so is through the Annual General Meeting where the financial performance of BBSL is presented to shareholders and discussions are held on them and other pertinent matters of mutual interest.

In addition to the full set of results, BBSL also publishes its mid-term results in the media to update stakeholders on the performance of the business.

Thank you.




02.


DIRECTORS' RESPONSIBILITY STATEMENT



■ KEY TAKEAWAY FROM YEAR 2018



The Director's have made an assessment of the ability of the 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.



DIRECTORS' RESPONSIBILITY STATEMENT

for the 9 months period ended 31 December 2018

The Directors are responsible for the preparation and fair presentation of the financial statements of BBS Limited, comprising the statement of financial position as at 31 December 2018 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and notes to the financial statements which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards and in compliance with the Building Societies Act (Cap 42:03).

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the 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 Auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements of BBS Limited, as identified in the first paragraph, were approved by the Board of Directors on 02 June 2020 and signed on their behalf by:



Ms. Pelani D. Siwawa-Ndai
Board Chairperson



Mr. Michael M. Tlhagwane
Chairman-Finance and Audit Committee



03.

INDEPENDENT AUDITOR'S REPORT



KPMG, Chartered Accountants
Audit
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Independent Auditor's Report

To the shareholders of BBS Limited

Opinion

We have audited the financial statements of BBS Limited ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 9 month-period then ended and the notes to the financial statements, which include a summary of significant accounting policies, as set out on pages 34 to 121.

In our opinion, the financial statements give a true and fair view of the financial position of BBS Limited as at 31 December 2018, and of its financial performance and cash flows for the 9 month-period then ended in accordance with International Financial Reporting Standards and in the manner required by the Building Societies Act (Cap: 42:03).

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 Company's financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBS LIMITED (Continued)

Key audit matters (continued)

1) Change of capital structure	
<p>Refer to:</p> <ul style="list-style-type: none"> • Note 19 on ordinary shares and indefinite period shares • Statement of changes in equity • Note 34 on events after the reporting date (Increase in stated capital) 	
Key audit matter	How the matter was addressed
<p>On 26 April 2018 Botswana Building Society went through a demutualisation process by converting from a building society to a Company limited by shares. This process was part of the Company's journey to convert to a commercial bank. As part of the process, there was a need to change the capital structure to meet the requirements of the Botswana Companies Act.</p> <p>The change of the capital structure involved conversion of equity instruments which existed in the previous financial year totalling P945 million to ordinary shares, debt instruments and fixed term deposits. The share allocation was guided by the following criteria:</p> <ul style="list-style-type: none"> • Existing equity holders given an opportunity to apply for and purchase shares using their existing equity investments. • Free allocation to qualifying customers. Where certain qualifying members had outstanding short-term loans and advances which were collateralised by a portion of the equity investments, a usable balance was determined to ensure adequate investments are retained as collateral. <p>Due to the significance of the change in the Company capital structure and the equity transactions involved, the conversion process and related transactions, this was considered to be a key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — We confirmed that the change of the Company structure followed the appropriate governance and approval processes by inspecting correspondence with the relevant authorities and stakeholders. — We obtained an understanding of the process followed by management in the change of the Company capital structure and transactions involved. <p>For a sample of allocated ordinary shares selected for testing, we:</p> <ul style="list-style-type: none"> — Traced the shareholder details to the listing of applications received to confirm that the shareholder qualified for the allocation and number of shares allocated. — Confirmed that the number of shares purchased and allocated as recorded in the share allocation register agreed to details on the share application form. <p>For free shares allocated, we performed the following:</p> <ul style="list-style-type: none"> — Confirmed the mathematical accuracy of the calculations and allocation split performed by management. — We interrogated the share allocation calculation to confirm alignment to the process prescribed by management. — For customers with short-term loans and advances at the allocation date, we confirmed that the said customers met the usable balance test ensuring that adequate collateral is retained to adequately cover the short-term loans and advances outstanding at the conversion date. — We confirmed the accuracy of shares per the Company records by agreeing the number of shares allocated to the number of shares per the Botswana Stock Exchange Market report issued subsequent to the registration in OTC Serala Board of the Botswana Stock Exchange. — We confirmed the accuracy of the transfer of debt instruments from equity to debentures by way of reconciliation and ensuring the amounts recorded agree to signed agreements. — We confirmed the accuracy of the transfer of the remaining equity investments not converted to either ordinary shares or debentures from equity to fixed term deposits by way of reconciliation and ensured that they were subjected to interest expense at the correct time.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BBS LIMITED (Continued)

Key audit matters (continued)

2) Globus T24 banking system upgrade	
<p>Refer to the following notes in the financial statements:</p> <ul style="list-style-type: none"> • 10 on mortgage loans and advances to customers. • 34 on events after the reporting date 	
Key audit matter	How the matter was addressed
<p>The upgrade of the core banking system in the previous financial year resulted in inaccurate reporting of short-term and mortgage loans and advances to customers because of several challenges described in note 10 of the financial statements. The post-upgrade challenges remained unresolved during the current financial period and included among others: missing bills, duplicated bills and interest errors. Consequently, management performed manual processes to correct the effect of these inaccuracies post period end.</p> <p>The post system upgrade challenges had a significant effect on our audit strategy relating to:</p> <ul style="list-style-type: none"> • an inability to rely on the system application controls. • a change in our initial audit process. • an increased significant risk of material misstatement on the accuracy of short-term and mortgage loans and advances to customers. <p>As this was assessed as a higher risk of material misstatement and these matters required significant auditor attention and effort, it was therefore considered to be a key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — We obtained, with the involvement of our IT experts, an understanding of the system challenges, management responses thereto and the impact on the financial reporting processes. — We tested a sample of short-term and mortgage loans and advances from the population identified by management as having no issues by performing independent amortisation of these, taking into account the relevant inputs. This was done to assess if other mortgage loans and advances was affected by system challenges or not. — We selected a sample of loans and advances to customers from the population that was identified by management as affected by system challenges and reperformed the amortization calculation for comparison with the manual amortisation undertaken by management. This was to check the accuracy of the adjustments made by management to correct system inaccuracies. — We tested the inputs into the manual recalculation of the sampled loans and advances to customers by comparing against signed loan agreements and payments in customer settlement accounts. — We evaluated the impact of the challenges on prior year reported balances based on new information that became available in the current reporting period by reperforming the manual recalculation on the prior year numbers to assess whether there was a material prior period error.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BBS LIMITED (Continued)

Key audit matters (continued)

3) Impairment of Short-term loans and advances to customers and Mortgage loans and advances to customers

Refer to the following notes in the financial statements:

- Note 2 (ii) on key sources of estimation uncertainties
- Note 3 (a) on Changes in accounting policies (Classification of financial assets and financial liabilities)
- Note 3 (h) on financial instruments (policy applicable from 01 April 2018)
- Note 4 (i) on financial risk management on credit risk
- Note 8 on Short-term loans and advances to customers
- Note 10 on Mortgage loans and advances to customers.
- Note 25 on Expected credit losses

Key audit matter	How the matter was addressed
<p>The Company's core business involves providing mortgage loans and advances to individuals and corporate customers. Consequently, the main component of the Company's financial assets comprise loans and advances to customers which is significant to the total assets of the Company. In the financial statements of the Company, gross mortgage loans and advances to customers amount to P3.2 billion and short-term loans and advances amount to P77 million. The related expected credit losses (ECL) for the year amounts to P85.8 million and P1.7 million, respectively.</p> <p>The Company adopted the standard IFRS 9: <i>Financial Instruments</i> (IFRS 9) effective 01 April 2018, which requires management to apply significant judgements in the determination of expected credit losses, including those relating to loans and advances to customers.</p> <p>The following inputs to these models require significant management judgement:</p> <ul style="list-style-type: none"> — Determination of significant increase in credit risk (SICR). — Determination of macroeconomic inputs and forward-looking information into the SICR assessment and the ECL measurement. — The estimation of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). <p>In addition to the above, judgement is also applied to determine whether any post model overlays are required for credit risk elements which are not captured by the models. Due to the significance of the mortgage loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL, the impairment of short-term and longterm mortgage loans and advances to customers was considered to be a key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — We evaluated the design and implementation, and where applicable, the operating effectiveness of manual key controls over the loans and advances impairment process, focusing on the identification of the ECL, the governance processes implemented for credit models and inputs, and management's oversight over the ECL. — We evaluated the design and implementation and the operating effectiveness of controls relating to the Company's loan origination process and credit reviews. — Where expected credit losses were calculated on a modelled basis, we performed the following procedures, in conjunction with our credit risk specialists: <ul style="list-style-type: none"> • We critically assessed the ECL models developed by management and the key assumptions applied in the calculation of the ECL relating to short-term and mortgage loans and advances to customers. This included use of the credit risk specialist to evaluate the assumptions and accuracy of the calculations in the models. • We assessed the completeness, accuracy and validity of data and inputs used during the development and application of the ECL models. • We challenged the parameters and significant assumptions applied in the calculation models which included SICR, estimated macroeconomic inputs and forward-looking information, the estimated probability of default, exposure at default and loss given default by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions. • We inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed the collateral valuation techniques applied against the credit policy and industry standards. • Where Management's experts have provided valuations in respect of collateral, we assessed the experts' competence and evaluated management's controls in respect of appointment of the experts, including assessment of their professional qualifications experience and independence. — We evaluated the appropriateness of management additional post model overlays by independently assessing the reasonability of the assumptions and judgments made by Management. — We evaluated the appropriateness of the new accounting policies applicable from 1 April 2018 due to the adoption of the new accounting standard relating to financial instruments. — We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments, sensitivities, the classification of mortgage loans and advances to customers on the date of initial application of IFRS 9 and the impact of the transition to IFRS 9 on the opening balances relating to short term and mortgage loans and advances to customers and retained earnings.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BBS LIMITED (Continued)

Key audit matters (continued)

4) Going concern assessment and uncertainties related to COVID-19	
<p>Refer to the following notes in the financial statements:</p> <ul style="list-style-type: none"> • Note 35 on going concern • Note 34 on events after the reporting date 	
Key audit matter	How the matter was addressed
<p>The Company incurred a net loss for the period ended 31 December 2018 of P26 million (March 2018: profit of P50 million).</p> <p>The loss position is expected to continue for a period exceeding 12 months after the reporting date. This is largely driven by the envisaged increased costs as part of the journey to transition to a commercial bank.</p> <p>In addition, subsequent to the reporting date there has been a pandemic of Coronavirus (COVID-19) which has required a global response to contain the disease. The Botswana Government has taken the necessary measures to contain and slow the spread of the virus. The measures taken to limit the spread of COVID-19 have been and by all accounts will continue to be severely disruptive to the global and local economy and financial markets and restricts the free movement of both people and goods. The negative impact has not yet been felt by the Company and it is closely monitoring the impact. Plans are underway to develop a new strategy for the new bank which is expected to turnaround the loss-making position of the Company in the long term. The success of the new strategy of converting to a commercial bank is dependent on obtaining a banking license which will enable the Company to introduce a wide range of products and services. The Company's latest financial records and future projections indicate the Company will remain solvent.</p> <p>Considering the timing of the submission of the banking licence application, the outcome and potential financial impact of continued losses, the extent and potential financial impact that these global and local lockdown measures might have on the Company, the directors have specifically assessed the impact that this will have on the Company's forecasts, liquidity and ultimately its ability to continue as a going concern. The assessment performed by management indicates declining key ratios, however, these are still within the regulatory thresholds.</p> <p>As there are significant judgements involved in the assessment of whether the going concern assumption remains appropriate and assumptions made regarding the duration and the anticipated impact of the COVID-19 pandemic on the Company, the going concern assessment and uncertainties related to COVID-19 is considered a key audit matter.</p>	<p>We critically evaluated management's assessment of the going concern assumption as follows:</p> <ul style="list-style-type: none"> — We assessed the reliability of the forecasts by comparing the latest forecasts against initial budgets and historical performance. — We evaluated the assumptions in respect of available projected future forecasts made by management for reasonableness based on information available. — We inspected correspondence with financial institutions, financiers and other relevant parties for any matters that may have an impact on the going concern of the Company. — We calculated the key ratios such as capital adequacy and liquidity ratio and compared the ratios with the regulatory thresholds to evaluate whether there are any trends that indicate going concern issues. — We considered the impact that COVID-19 may have on the Company and critically evaluated management's assessment of the impact on the Company's financial statements, including its impact on the going concern assumption and subsequent event disclosures. — We interrogated various scenarios considered by management in order to assess the impact that this pandemic will have on the Company's forecasts, liquidity and ultimately its ability to continue as a going concern. These included the current Company performance and the plans underway to develop a new strategy for the new bank which is expected to turnaround the loss-making position of the Company. — We evaluated management's assessment of COVID-19 related risks for the Company's businesses and financial resources compared with our own understanding of these risks. We considered management's plans to mitigate these risks.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' report, the Directors' responsibility statement 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 financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BBS LIMITED (Continued)

Other Information (continued)

other information that we have obtained prior to the date of this auditors' 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 Financial Statements

The Directors are responsible for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Building Societies Act (Cap 42:03), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, related safeguards.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BBS LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the 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.

Report on Other Legal and Regulatory Requirements

In accordance with section 54 of the Building societies Act (CAP42:03), we consider and report that in our opinion:

- BBS Limited has kept proper books of account with which the financial statements are in agreement,
- We have satisfied ourselves as to the existence and contents of mortgage bonds and other securities belonging to BBS Limited; and
- BBS Limited has complied with all the financial provisions of the Act.



KPMG

Certified Auditors

Practicing Member: Gosego Motsamai (20030026)

Certified Auditor of Public Interest Entity

BAOA Certificate Number CAP 0035 2019

Date: 16 June 2020

Gaborone



04.

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	31 December 2018 P'000	As restated* 31 March 2018 P'000	As restated* 01 April 2017 P'000
Assets				
Cash and cash equivalents	5	79 530	81 008	70 308
Investments with banks	6	514 365	777 918	232 251
Other assets	7	29 118	21 778	19 529
Short term loans and advances to customers	8	77 297	87 442	81 600
Properties-in-possession	9	9 190	13 700	11 792
Mortgage loans and advances to customers	10	3 197 561	3 099 050	3 117 664
Intangible assets	11	26 433	29 227	18 991
Property and equipment	12	97 770	96 714	100 495
Total assets		4 031 264	4 206 837	3 652 630
Liabilities				
Customers' savings and fixed deposit accounts	13	1 764 252	1 274 795	1 130 984
Paid up and subscription savings	14	405 412	527 201	508 619
Withholding tax	15	827	2 698	3 140
Borrowings	16	1 127 033	1 175 740	846 915
Debentures	17	102 205	-	-
Other liabilities	18	62 184	68 813	70 525
Total liabilities		3 461 913	3 049 247	2 560 183
Equity				
Ordinary shares	19	487 014	-	-
Indefinite period shares	19	-	945 716	872 709
Retained (loss)/ earnings		(31 100)	23 412	36 270
Statutory reserve	20	113 437	124 462	119 468
General market risk reserve	20	-	64 000	64 000
Total equity		569 351	1 157 590	1 092 447
Total liabilities and equity		4 031 264	4 206 837	3 652 630

* Details related to the prior period error have been disclosed on note 42.



05.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the 9 months period ended 31 December 2018

	Notes	9 months 31 Dec 2018 P'000	12 months 31 Mar 2018 P'000
Interest income	21	220 031	303 079
Interest expense	22	(128 567)	(135 258)
Net interest income		91 464	167 821
Fee and commission income	23	15 731	21 202
Fee and commission expense	23	(818)	(1 105)
Net fee and commission income		14 913	20 097
Revenue		106 377	187 918
Other operating income	24	3 526	4 855
Operating income		109 903	192 773
Expected credit losses	25	14 531	14 270
Personnel expenses	26	55 599	70 776
Depreciation and amortisation	27	11 479	12 074
Operating lease expenses	28	2 238	2 492
Other expenses	29	52 247	43 220
Total expenses		136 094	142 832
(Loss)/ profit for the period/ year		(26 191)	49 941
Total comprehensive income for the period/ year		(26 191)	49 941
Basic and diluted earnings per share (thebe)	31	(4.9)	5.50



06.

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

for the 9 months period ended 31 December 2018

	Indefinite period shares P'000	Ordinary shares P'000	Statutory reserve P'000	General market risk reserve P'000	Retained (loss)/ earnings P'000	Total Equity P'000
Balance at 01 April 2017	872 709	-	119 468	64 000	36 270	1 092 447
Total comprehensive income						
Profit for the year	-	-	-	-	49 941	49 941
<i>Transactions with owners of the Society</i>						
Issue of new shares (net)	73 007	-	-	-	-	73 007
Dividends paid	-	-	-	-	(57 805)	(57 805)
Transfers during the year	-	-	4 994	-	(4 994)	-
<i>Total contributions and distributions</i>	73 007	-	4 994	-	(62 799)	15 202
Balance at 31 March 2018	945 716	-	124 462	64 000	23 412	1 157 590
<i>Total comprehensive income</i>						
Loss for the period (9 months)	-	-	-	-	(26 191)	(26 191)
IFRS 9 transitional adjustment on initial application at 01 April 2018	-	-	-	-	(28 321)	(28 321)
<i>Transactions with owners of the Company</i>						
Transfer of debentures	(101 000)	-	-	-	-	(101 000)
Transfer of indefinite savings	(544 892)	-	-	-	-	(544 892)
Transfer of cash and cash equivalents	-	-	(759)	-	-	(759)
Transfer from paid up shares	97 653	-	-	-	-	97 653
Transfer from subscription shares	15 271	-	-	-	-	15 271
Transfer from general reserve (note 20)	64 000	-	-	(64 000)	-	-
Transfer from statutory reserve (note 20)	10 266	-	(10 266)	-	-	-
Transfer to ordinary shares (note 19)	(487 014)	487 014	-	-	-	-
<i>Total contributions and distribution</i>	(945 716)	487 014	(11 025)	64 000	-	(533 727)
Balance at 31 December 2018	-	487 014	113 437	-	(31 100)	569 351

Refer to the conversion statement for information on the change in the capital structure. Refer to note 20 of this report for details on the Company's reserves.



07.

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

for the 9 months period ended 31 December 2018

	Notes	9 months 31 Dec 2018 P'000	12 months 31 Mar 2018 P'000
Cash flows from operating activities			
Interest receipts		225 545	296 632
Commission receipts		15 731	21 202
Interest payments		(117 576)	(155 986)
Commission payments		(818)	(1 105)
Other operating income		3 526	4 855
Cash payments to employees and suppliers		(114 331)	(120 603)
Net cash received from operating activities before changes in working capital		12 077	44 995
Movement in:			
- Short term loans and advances		8 707	(5 842)
- Mortgage loans and advances		(138 478)	4 344
- Properties in possession (net)		4 510	(1 908)
- Other assets		(7 628)	(2 222)
- Customers' savings and fixed deposits accounts		(64 300)	143 811
Net cash (used in)/ generated from operating activities		(185 112)	183 178
Cash flows from investing activities			
Purchase of property and equipment	12	(9 740)	(18 435)
New placement of investments with banks		(1 035 897)	(2 141 099)
Maturities of investments with banks		1 293 937	1 601 879
Purchase of intangible assets	11	-	(94)
Net cash generated from/ (used in) investing activities		248 300	(557 749)
Cash flows from financing activities			
Receipt of borrowed funds and debt securities		120 000	440 000
Repayment of borrowed funds and debt securities		(170 590)	(100 038)
Proceeds received from issue of indefinite period shares		-	102 980
Payment made for redemption of indefinite shares		-	(29 973)
Proceeds from paid up and subscription shares		-	18 582
Dividends paid		(13 317)	(46 280)
Reserves- cash distribution to members		(759)	-
Net cash (used in)/ generated from financing activities		(64 666)	385 271
Movement in cash and cash equivalents		(1 478)	10 700
Cash and cash equivalents at beginning of the period/ year	5	81 008	70 308
Cash and cash equivalents at end of the period/ year	5	79 530	81 008



08.



**SIGNIFICANT ACCOUNTING POLICIES
&
NOTES TO THE FINANCIAL
STATEMENTS**



SIGNIFICANT ACCOUNTING POLICIES

for the 9 months period ended 31 December 2018

1. Reporting entity

BBS Limited is domiciled in Botswana. The address of the Company's registered office is Plot 13108-112 Broadhurst, Gaborone. The Company is primarily involved in property finance and the provision of financial services. These financial statements represent the Company's statutory financial statements. The financial statements were approved by the Directors on 02 June 2020.

On 26 April 2018 Botswana Building Society went through a demutualisation process by converting from a building society to a company limited by shares. Upon incorporation the Company adopted a new financial year end of 31 December, as opposed to the 31 March year end for the building society. The operations of the organisation have been in existence since December 1976 when it was first established.

The financial statements cover a period of 9 months ended 31 December 2018.

2. Basis of preparation

(i) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (Cap 42:01) and the Building Societies Act (Cap 42:03). The financial statements are prepared on the historical cost basis except otherwise stated. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

This is the first set of the Company's financial statements in which IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from contracts with customers* have been applied. Changes to significant accounting policies are described in note 3(a) of the financial statements.

(ii) Key sources of estimation uncertainty

The preparation of the 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 Company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the 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 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.

Information about assumptions and estimation uncertainties is included in the following notes.

Applicable after 01 April 2018:

- Note 3(h): Financial instruments (policy applicable from 01 April 2018) *Expected Credit losses*: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable before 01 April 2018:

- Note 3(i): Financial instruments (policy applicable before 01 April 2018 – IAS 39) *Impairment of financial assets*: key assumptions used in estimating recoverable cashflows.
- Note 3(k), Note 12: estimation of useful lives and residual values of property and equipment.
- Note 4: valuation of collateral
- Note 7, Note 26: fair value of staff loans
- Note 3(l), Note 11: estimation of useful lives and residual values of intangibles.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of preparation (Continued)

(ii) Key sources of estimation uncertainty (continued)

The following are the key assumptions applied in these financial statements.

Expected credit losses - Applicable after 01 April 2018

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) 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;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.
- The determination of management overlays

Explanations of the inputs assumptions and estimation techniques used in measuring ECL is further detailed on Note 3(h) of these financial statements.

Allowances for credit losses - Applicable before 01 April 2018

The specific component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are separately approved by the Credit Risk Function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired items cannot yet be identified. To estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the reasonableness of estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Residual values of properties

Residual values of properties 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 information provided by property experts.

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Company's quarterly reporting schedule. Some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties including mortgage brokers, housing price indices, audited financial statements and other independent sources.

SIGNIFICANT ACCOUNTING POLICIES (Continued)**2. Basis of preparation (Continued)****(ii) Key sources of estimation uncertainty (continued)**

Staff loans

The Company extends advances to staff at preferential interest rates that are below market rates. The fair value for these loans is the present value of all future cash receipts using a market interest rate for a similar loan. The difference between present value and amount advanced is deferred over the term of the loan. Subsequently a portion is expensed in profit or loss as part of personnel expenses.

Intangible assets - Computer software

Judgement is required in determining the intangible assets' useful lives and residual values. The estimated useful life is three to five years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

Property and equipment

Judgement is required in determining the assets' useful lives and residual values. The estimated useful lives range between three to thirty years. 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. There have been no changes in the estimated useful lives from those applied in the previous financial year.

(iii) Functional and presentation currency

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

3. Significant accounting policies**Changes in accounting policies****a) Standards, interpretations and amendments issued and effective**

The Company has adopted IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from contracts with customers*. A number of other new standards are also effective from 01 January 2018, but they do not have a material effect on the company's financial statements.

Due to the transition method chosen by the Company in applying IFRS 9: *Financial Instruments*, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the company. Accordingly, the impact on the comparative is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributable to the following:

- an increase in expected credit losses on financial assets, see note 4(vi)
- additional disclosures related to IFRS 9 (refer to notes 3(h) on detailed disclosures relating to IFRS 9);

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

- additional disclosures related to IFRS 15 (refer to note 23).

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

Changes in accounting policies (Continued)

a) Standards, interpretations and amendments issued and effective (continued)

IFRS 9: Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IAS 1 *Presentation of Financial Statements* requires separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. All fees of the Company are charged and paid up-front thus the contractual interest rate is equal to the effective interest rate.

There has been no change to the presentation of interest revenue in the statement of profit or loss and OCI as a result of the adoption of IFRS 9.

The Company has adopted consequential amendments to IFRS 7: *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been applied to the comparative information. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in note 4(vi) of these financial statements.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. For an explanation of how the Company classifies financial assets under IFRS 9, refer to Note 3(h) and 4(vi) for more details.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see note 3(h) Financial instruments (policy applicable from 01 April 2018) and 4(vi).

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see 'Significant Accounting Policies' note 3(h) of these financial statements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been recognised in retained earnings as at 01 April 2018, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 01 April 2018. Accordingly, the information presented for 31 March 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 31 December 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

Changes in accounting policies (continued)

a) Standards, interpretations and amendments issued and effective (continued)

IFRS 9: Financial Instruments (continued)

of the initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at Fair Value Through Profit or Loss (FVTPL).
- The designation of certain investments in equity instruments not held for trading as at Fair Value through Other Comprehensive Income (FVOCI).
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

For more information and details on the changes and implications resulting from the adoption of IFRS 9 see note 4(vi) of these financial statements.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 *Revenue from contracts with customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18: *Revenue*, IAS 11: *Construction Contracts* and related interpretations. It applies to all contracts with customers except for transactions specifically scoped out and which include interest, dividends, leases and insurance contracts.

The Company adopted IFRS 15 in full on 01 April 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Company's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements, see note 23.

b) New standards and interpretations not yet effective

The following are other amendments, standards and interpretations which became effective during the period, with no impact on the Company's financial statements:

Standard/Interpretation	Effective date	Impact on these financial statements
Amendments to IFRS 2: <i>Clarifying share-based payment accounting</i>	01 January 2018	No impact on these financial statements
Amendments to IAS 40: <i>Transfers of Investment property</i>	01 January 2018	No impact on these financial statements
IFRIC 22: <i>Foreign Currency Transactions and Advance Considerations</i>	01 January 2018	No impact on these financial statements

A number of new standards, amendments to standards and interpretations that are not yet effective for the period ended 31 December 2018 have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

IFRS 16 Leases

IFRS 16 *Leases* was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

b) New standards and interpretations not yet effective (continued)

IFRS 16 Leases (continued)

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The standard may result in current operating leases disclosed in the statement of financial position with associated depreciation and amortisation charges recognised in profit or loss.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value. An entity may use one or more of other practical expedients when applying IFRS 16 and is required to disclose the use of those.

The Company applies the following expedients:

- Lease term less than 12 months or
- The underlying asset has a low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 **Leases**. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Impact

The impact of IFRS 16 on the Company is primarily where the Company is a lessee in property lease contracts. The Company has elected the modified retrospective approach of transition and will not restate comparative information. On 1 January 2019 the Company will recognise a lease liability, being the remaining lease payments including extensions options where renewal is reasonably certain, discounted using the Company's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised will be the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases.

There are significant judgements involved in assessing the impact of the adoption of IFRS 16 with respect to determining whether the Company is reasonably certain that it will exercise extension options present in lease contracts as well as the calculation of the estimated incremental borrowing rates.

The increase on the statement of financial position as a result of recognition of the lease liability and right-of-use asset as of 1 January 2019 is estimated at P23.4 million. However, the actual impact may change as judgments and estimates are refined.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted. The Company is exempt from income tax thus no further assessment is required.

The following accounting standards in issue but not yet effective are not expected to have a significant impact on the financials statements of the Company:

SIGNIFICANT ACCOUNTING POLICIES (Continued)*3. Significant accounting policies (Continued)**b) New standards and interpretations not yet effective (continued)**IFRIC 23 Uncertainty over Income Tax Treatments (continued)*

Standard/Interpretation	Effective date
Plan amendment/curtailment or settlements (Amendment to IAS 19)	01 January 2019
Prepayment features with Negative Compensation (Amendments to IFRS 9)	01 January 2019
IAS 28 amendment - Long-term Interests in Associates and Joint Ventures	01 January 2019
Annual Improvements to IFRS Standards 2015/2017 Cycle various standards	01 January 2019
Conceptual Framework amendments - Amendments to References to Conceptual Framework in IFRS Standards	01 January 2020
IFRS 3 amendment - Definition of a Business	01 January 2020
Amendments to IAS 1 and IAS 8 - Definition of Material	01 January 2020
IFRS 10 and IAS 28 amendment - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely
IFRS 17 Insurance Contracts	01 January 2023

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Company (unless otherwise specified in the notes below on changes in accounting policies).

c) Interest**Interest - Applicable after 01 April 2018**

Interest income and expense are recognised in profit or loss using the effective interest method. 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 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. All fees of the Company are charged and paid up-front thus the contractual interest rate is equal to the effective interest rate. There has been no change to the presentation of interest revenue in the statement of profit or loss and OCI as a result of the adoption of IFRS 9.

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. The effective interest rate is also revised for fair value hedge adjustments at the date of amortisation of the hedge adjustment begins.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policy (Continued)

c) Interest (continued)

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.

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.

Interest - Applicable before 01 April 2018

Interest income and expense are recognised in profit or loss using the effective interest method. 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 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.

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 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. The effective interest rate is also revised for fair value hedge adjustments at the date of amortisation of the hedge adjustment begins.

d) Fees and commission

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, sales commission, commission on insurance brokerage activities, placement fees and syndication fees, 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 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 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.

e) Dividends

Dividends are recorded in the 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.

f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

f) Leases (continued)

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives are considered an integral part of the total lease expense.

- *Where the Company is the lessee*

The total contractual lease payments are recognised in profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

- *Where the Company is the lessor*

Receipts of operating lease payments from properties are accounted for as rental income on a straight-line basis over the period of the lease. When an operating 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 period in which the termination takes place.

Minimum lease payments made under finance leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

g) Income tax

The Company is exempt from income tax as per paragraph (vi), Part I of the Second Schedule of the Income Tax Act (Cap 50:01).

Withholding tax of 7.5% is payable on the gross value of dividends paid. The Company also deducts and pays to Botswana Unified Revenue Services, withholding tax on interest earned by customers on savings deposits.

h) Financial instruments (policy applicable from 01 April 2018)

The Company classifies its financial assets into the following measurement categories:

- amortised cost
- fair value through other comprehensive income and
- fair value through profit or loss.

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 and fair value through other comprehensive income (FVOCI)

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) 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 Company considers 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 Company considers:

- Contingent events that would change the amount and timing of cash flows;

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

- Leverage features;
- Prepayment and extension terms;
- Terms that limit the 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 or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Company manages financial assets to generate cash flows.

The 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 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. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

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 Company 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 Company 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 Company of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the 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.

Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument by instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

SIGNIFICANT ACCOUNTING POLICIES (Continued)**3. Significant accounting policies (Continued)****h) Financial instruments (policy applicable from 01 April 2018) (continued)**

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term; and
- Non-trading mandatorily at fair value through profit or loss, including:
 - i. Instruments in a business which has a fair value business model which are not trading or derivatives;
 - ii. Hybrid financial assets that contain one or more embedded derivatives;
 - iii. Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
 - iv. Equity instruments that have not been designated as held at FVOCI; and
 - v. Financial liabilities that constitute contingent consideration in a business combination.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (accounting mismatch).

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have a bifurcately embedded derivative where the Company is not able to separately value the embedded derivative component.

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.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Company has access at the date. The fair value of a liability includes the risk that the Company will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of quoted financial assets and liabilities in active markets are based on current prices. If the market for a financial instrument, and for unlisted securities, is not active, the Company establishes fair value by using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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 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).

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

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 the profit or loss as the inputs become observable, or the transaction matures or is terminated.

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 Company classifies its financial assets at amortised cost. The Company classifies its financial liabilities as measured at amortised cost.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently measured at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity.

Changes in expected credit losses are recognised in the profit or loss and are accumulated in an allowance account against the respective financial assets. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to profit or loss.

Equity investments designated at FVOCI are subsequently measured at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in profit or loss.

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors. Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising for non-credit reasons are recognised either as part of credit impairment or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

Modification gains and losses arising on financial liabilities are recognised within income.

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.

- (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).

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the 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 Company has retained control, the assets continue to be recognised to the extent of the 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 equity instruments elected FVOCI and 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.

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changed. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss allowances to a separate reserve in other comprehensive income at the date of reclassification.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

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 IFRS, or for gains and losses arising from Company of similar transactions such as in the Company's trading activity.

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.

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.

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 Company in the management of its loan commitments.

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

Collateral repossessed

The 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

Credit impairment

The 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 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 or fair value through other comprehensive income.

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- and loan commitments issued.

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 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 Company calculates expected losses for all its loans and advances measured at amortised costs at individual level. The population was segmented by product (mortgage loans, 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 loan portfolios, the Company has adopted a simplified approach based on historical roll rates or loss rates.

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 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 Company's most likely forecast of macroeconomic assumptions.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

The table below shows the forward-looking assumptions incorporated in the ECL calculation:

	2018 Base forecast	2019 Base forecast	2020 Base forecast
GDP growth (real % Year on Year)	Not applicable		
CPI (% annual average)	The CPI time series is not stationary. Only the 'diamond price' index and 'Cost of living City & Towns' were stationary with the Diamond price index proving to be a leading indicator in the macro-economic model.		
Policy rate (%)	Not applicable		
USD –BWP	Not applicable		
Current account balance (% GDP)	Not applicable		
Fiscal balance (% GDP)	Not applicable		

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the 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 Company may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

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)
Financial assets held at FVOCI-Debt instruments	Other comprehensive income (FVOCI expected credit loss Reserve) (2)
Loan commitments	Provisions for liabilities and charges (3)
Financial guarantees	Provisions for liabilities and charges (3)

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. Debt securities classified as FVOCI are held at fair value in the statement of financial position. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to profit and loss

SIGNIFICANT ACCOUNTING POLICIES (Continued)**3. Significant accounting policies (Continued)****h) Financial instruments (policy applicable from 01 April 2018) (continued)**

along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

3. 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.

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

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

- 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

For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018) (continued)

Recognition (continued)

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. This is because the underlying supporting information required to do so is not reasonably 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.

For accounts in Stage 1 and Stage 2 the effective interest is recognised on the gross carry 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 balance sheet and any movements to the provisions would be a gain / loss for bad debt / impairment in the income statement.

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 the what is expected to be paid.

SIGNIFICANT ACCOUNTING POLICIES(Continued)*3. Significant accounting policies (Continued)**h) Financial instruments (policy applicable from 01 April 2018) (continued)***Expert credit judgement**

The 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
Higher risk	R6 to R9	Substandard or Doubtful or Loss

The 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 R4 represents normal, healthy exposures while R5 to R9 represent high-risk of defaulted borrowers.

For individually significant financial assets within Stage 3, Global Credit Risk 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 Company'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 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.

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

h) Financial instruments (policy applicable from 01 April 2018 (continued))

Forborne loans

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 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 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 the profit or loss.

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

The 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 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. 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

SIGNIFICANT ACCOUNTING POLICIES (Continued)**3. Significant accounting policies (Continued)****h) Financial instruments (policy applicable from 01 April 2018) (continued)****Improvements in credit risk or curing (continued)**

are reclassified to stage 1. A forbore 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 forbore 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.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

All financial instruments are initially recognised at fair value, which is normally the transaction price. 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 inputs.

Subsequent to initial recognition, some of the financial instruments are carried at fair value, with changes in fair value either reported within profit or loss or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Company's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

i) Financial instruments (policy applicable before 01 April 2018 - IAS 39)**Initial recognition of financial instruments**

The Company initially recognises cash, amounts due from/due to related parties, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Classification and measurement

The Company classifies its financial assets into the following measurement categories:

- loans and receivables;

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Significant accounting policies (Continued)

i) Financial instruments (policy applicable before 01 April 2018 - IAS 39) (continued)

- held-to-maturity; or

The Company classifies its financial liabilities as measured at amortised cost.

Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and advances are measured at amortised cost using the effective interest rate. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the Company's advances are included in the loans and receivables category. These advances are stated net of allowances for specific and portfolio impairments.

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 and classified as part of loans and receivables.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's Management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to maturity assets, the entire category would be reclassified as available-for-sale. Held-to-maturity fixed interest instruments, held in investment portfolios, are stated at amortised cost using the effective interest method, less any impairment losses. Held to maturity investments comprise fixed deposits with banks.

Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Debt Participation Capital Funding Limited (DPCFL) loans which are at rates below the ruling market rates were originally recorded at fair value, determined based on the effective interest method. Under this method, the fair value of the borrowing is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate. The difference between the borrowing received and the amortised cost is recognised as income when the borrowing is received and unwinds to interest expense over the period of the loan based on the effective interest yield curve.

Shares, which are redeemable on a specific date, or at the option of the shareholder or which carry non-discretionary dividend obligations are classified as financial liabilities. Dividends on these shares classified as financial liabilities are accounted for as interest on an amortised cost basis using the effective interest method and are recognised in the profit or loss as interest expense.

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.

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 Company in the management of its loan commitments. Investments with banks are measured at amortised cost in the statement of financial position.

SIGNIFICANT ACCOUNTING POLICIES (Continued)**3. Significant accounting policies (Continued)****i) Financial instruments (policy applicable before 01 April 2018 - IAS 39) (continued)**

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value allocated to the net trading income line in profit or loss.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial instruments**Financial asset**

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all the risks and rewards of ownership are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liability

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when the Company has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and liability simultaneously. No financial assets or liabilities were offset in preparation of the Company's financial statements.

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Impairment of financial assets**Assets carried at amortised cost**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets are impaired. A financial asset or group of financial assets are impaired and impairment losses incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("a loss event") and prior to the reporting date, and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant difficulty of the issuer or obligator;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial re-organisation;
- the disappearance of an active market for the financial asset because of financial difficulties;

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies

i) Financial instruments (policy applicable before 01 April 2018 - IAS 39) (Continued) Impairment of financial assets (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets held by the Company, including: adverse changes in the payment status of borrowers in the Company or national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate. The amount of the loss is recognised in profit or loss.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised is predetermined based on the loan's renegotiated terms.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. After reassessment of the borrower's ability to repay the accumulated arrears are capitalised over the remaining term.

Collateral repossessed

The 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.

j) 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. 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 Company.

SIGNIFICANT ACCOUNTING POLICIES (Continued)*3. Significant accounting policies (Continued)**k) Property and equipment***k) 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 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 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.

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. Freehold and leasehold land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Land and Leasehold property	the lower of 50 years or remaining lease period
Freehold property	50-80 years
Motor vehicles	6-8 years
Computer hardware	3-5 years
Equipment, furniture and fittings	4-5 years

The assets' residual values, depreciation methods and useful lives are reviewed at each reporting date and adjusted prospectively if appropriate, at each reporting date.

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 company and the renovation replaces an identifiable part of the asset. 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, plant and equipment

An item of property, plant 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, plant 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

l) Intangible assets

l) Intangible assets

Software acquired by the 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 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.

m) 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 reflects the asset's specific risks. An impairment loss is recognised in profit or loss.

n) Retirement benefits

The Company operates a defined contribution pension fund for all its permanent citizen staff. This fund is registered under the Retirement Funds Act, 2014. The Company contributes to the fund 15% of the pensionable earnings of the members and the employees contribute 7% of their pensionable earnings. The 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 Company does not have any further liability to the fund.

o) Related party transactions

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

p) Other employee 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 Company's pension scheme and do not qualify for such terminal gratuities.

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 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.

q) Other reserves

General market risk reserve

Under rule 73 of the rules of BBS Limited, a general market reserve is established by a Company other than the statutory reserve fund and is built up out of profit and not set aside for any specific purpose.

The Board shall transfer to the general reserve, out of the profits of the company or out of other reserves, such amounts (if any) as it deems necessary and may draw upon the general market risk reserve for such purpose including transfer

SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Significant accounting policies (Continued)

q) Other reserves (continued)

to other reserves, as it deems fit, regard being had at all times to the adequacy of the general market risk reserve.

The general market risk reserve at an amount of P64 million was distributed on 26 April 2018 to Shareholders in the form of shares as part of the conversion.

Statutory reserve

Under paragraph 39 of the Building Societies Act (42:03), the Company is to establish a fund known as the statutory reserve fund. At the end of every financial year the Company pays into the statutory reserve fund an amount not less than 10% of its net profits. The Company may 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.

A total of P10.266 million was distributed on 26 April 2018 to Shareholders in the form of shares as part of the conversion.

r) 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.

s) Stated capital

All qualifying members owning either Indefinite period shares, Fixed period shares or Subscription shares in Society were given the option to acquire shares in BBS Limited on 26 April 2018. 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.

t) Earnings per share

The 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 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.

u) Loan commitments

Financial commitments are measured as follows:

- from 1 January 2018: the Company recognises a loss allowance (Note 4, Note 25);
- before 1 January 2018: the Company recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial risk management

4. Financial risk management

Introduction and overview

The Company manages the enterprise wide risks assumed by the Company through the Risk Department. The Company has adopted the Basel II Risk Management Framework for the management of risks it is exposed to. It is also intended to enhance the Company's management of its capital. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Interest rate risk
- Liquidity risk
- Operational risk

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board has the following sub committees:

- Finance and Audit Committee
- Human Resources and Remuneration Committee
- Tender Committee
- Demutualisation Committee

The above Board Sub-committees and Board convene on a quarterly basis. The Company's Board and its committees are comprised of five Non-Executive Directors and one Executive Director. Management reports risk management matters to the Finance and Audit committee. The Company has a separate Risk Department.

The Risk Department focuses on the management of different risk classes. The department currently manages the Assets and Liabilities Committee (ALCO), Operational Risk and other risk classes. The Company's enterprise –wide risk framework is aligned to Basel II. The Company remains well capitalised and its capital is reflective of the underlying economic risks it is exposed to.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls. These are monitored monthly by Management and reported to the Board on a quarterly basis. Following the review of the Enterprise Risk Management Framework by Dupleix Institute, the Company has developed a Risk Appetite Framework which sets out the appetite for the significant risks the Company is exposed to, and these are monitored on a quarterly basis. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions, products and services offered. The Company through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

As part of Basel II implementation, the Company has submitted the first Internal Capital Adequacy Assessment Process (ICAAP) document to Bank of Botswana which includes a stress testing section. The ICAAP document will be submitted to the regulator on an annual basis.

The Internal Audit Department is tasked with the responsibility of monitoring compliance with the Company's risk management policies and procedures. The Internal Audit Department reports to the Finance and Audit Committee. The Board is responsible for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**4. Financial risk management (continued)****(i) Credit risk****(i) Credit risk**

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

For management of credit risk, the 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 Finance and Audit Committee. The Board approves management's lending limits and monitors loans and advances that are not performing.

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 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 Operations. Larger facilities require approval by the Credit Approvals Committee and the Global Credit Risk Management Committee (GCRMCO). Any loans which are more than 5% of the Company's capital require approval by the Board of Directors.
- Reviewing and assessing credit risk. The 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 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 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 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 Company has developed models which are used to calculate expected credit losses of financial instruments in line with IFRS 9.

- 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 Company in the management of credit risk.

The Company performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Company groups its loans into Stage 1, Stage 2, Stage 3 as described below:

- Stage 1: When loans are first recognised, the 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 Company records an

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

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.

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

	31 December 2018 P'000	31 March 2018 P'000
Balances with banks (call and current accounts)	74 450	74 739
Money market balances	-	886
Fixed deposit with banks	514 365	777 918
Short term loans and balances	77 297	87 442
Mortgage loans and advances to customers	3 197 561	3 099 050
Other assets	13 918	13 932
	3 877 591	4 053 967

The above table represents a worst-case scenario of credit risk exposure to the Company at 31 December 2018 and 31 March 2018, 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 82% percent of the total maximum exposure is derived from mortgage loans and advances to customers (31 March 2018: 76 percent) and 13% percent represents investments with banks (31 March 2018: 19 percent).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the 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;
- Mortgage loans and advances to customers are backed by collateral; and
- All loans and advances were subject to IFRS 9 provisioning for the period ended 31 December 2018. 88% percent of the mortgage loans and advances were considered to be neither past due nor impaired at 31 March 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

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-IFRS 9

	Stage 1 Performing P'000	Stage 2 Performing P'000	Stage 2 Non- performing P'000	Stage 3 Non- performing P'000	31 Dec 2018 Total P'000
Assets at amortised cost individually impaired					
Standard	2 338 276	2 440	-	20 199	2 360 915
Special Mention/ Watch list	260 293	-	194 662	50 055	505 010
Substandard	-	-	47 697	47 971	95 668
Doubtful	-	-	-	122 919	122 919
Loss	-	-	-	198 880	198 880
Gross carrying amount	2 598 569	2 440	242 359	440 024	3 283 392
Specific impairment					
ECL impairment allowance	3 481	1 323	2 924	78 103	85 831
	3 481	1 323	2 924	78 103	85 831
Net loans and advances	2 595 088	1 117	239 435	361 921	3 197 561

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in note 3(h).

Impairment (ECL) coverage ratio	2.61%
Stage 3 coverage ratio	17.75%

Mortgage loans and advances to customers – Off Balance Sheet-IFRS 9

	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	31 Dec 2018 Total P'000
Assets at amortised cost individually impaired				
ECL impairment allowance	169	-	-	169

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 FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

	31 December 2018			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Mortgage loans and advances to customers				
Balance at 31 March 2018	2 374	2 592	68 068	73 034
<i>Transfer: March 2018 balances</i>				
To stage 1	3 896	(825)	(3 071)	-
To stage 2	(534)	2 336	(1 802)	-
To stage 3	(89)	(769)	858	-
<i>Net re-measurement of loss allowance: Accounts that changed staging</i>				
Transfer to stage 1	(3 799)	-	-	(3 799)
Transfer to stage 2	-	528	-	528
Transfer to stage 3	-	-	13 719	13 719
Net re-measurement of loss allowance: No change in staging	962	238	5 139	6 339
New financial assets originated	758	204	518	1 480
Financial assets that have been derecognised	(87)	(57)	(237)	(381)
Write-offs	-	-	(5 089)	(5 089)
Balance at 31 December 2018	3 481	4 247	78 103	85 831

Write-offs

The contractual amount outstanding on financial assets that were written off during the period ended 31 December 2018 and that are still subject to enforcement activity is P1.751 million.

Modified financial assets

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

Credit-impaired financial assets

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

	31 Dec 2018 P'000
Credit impaired mortgage loans and advances to customers at 31 March 2018	305 764
Change in allowance for impairment	(9 762)
Classified as credit-impaired during the period	169 547
Transferred to not credit-impaired during the period	(25 131)
Net repayments	(1 000)
Credit-impaired mortgage loans and advances to customers at 31 December 2018	439 418

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

Bank Balances

The Company held bank balances of P594 million as at 31 December 2018 (31 March 2018: P859 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 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	10	Property
Short term loans	8	Cash deposit

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.

	Note	31 Dec 2018 P'000	31 Mar 2018 P'000
LTV ratio			
Less than 60%		1 295 417	1 247 383
60-70%		437 954	448 724
70-80%		516 628	515 360
80-90%		860 125	787 669
More than 90%		173 268	145 778
Total	10	3 283 392	3 144 914
Loan commitments			
Less than 60%		49 415	29 905
60-70%		4 697	2 789
70-80%		13 462	9 643
80-90%		20 820	15 123
More than 90%		21 865	13 284
Total	32	110 259	70 744

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

An estimate of the fair value of collateral and other tangible security enhancements held against financial assets is summarised as follows:

	Loans and advances to customers 31 Dec 2018 P'000	Loans and advances to customers 31 March 2018 P'000
Against specific impairment - Property	919 633	153 910
Against general impairment - Property	6 111 077	6 524 763
Against short term loans not impaired - Cash deposit	76 906	87 442
Total	7 107 616	6 766 115
Carrying amount as a proportion of collateral cover	46%	47%

Loans and advances to customers - IAS 39	Loans and advances to customers 31 March 2018 P'000
Carrying amount	
Mortgage loans	3 099 050
Short term loans	87 442
	3 186 492
Past due for less than 90 days and not impaired	
Residential	130 741
Commercial	13 318
	144 059
Neither past due nor impaired	
Residential	2 487 634
Commercial	216 541
	2 704 175
Unimpaired loans and advances to customers	2 848 234
Individually impaired (specific)	
Residential	120 705
Commercial	16 411
Gross amount	137 116
Allowance for impairment	(39 287)
	97 829

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

Loans and advances to customers - IAS 39 (continued)	Loans and advances to customers 31 March 2018 P'000
Collectively impaired	
Gross amount	3 007 798
Allowance for impairment	(6 577)
	3 001 221
Past due but not impaired comprises:	
30-60 days	96 282
60-90 days	47 777
90-180 days	90 318
180 days +	81 923
	316 300

The Company writes off loan balances (and any related allowances for impairment losses) when the Company determines that the loans are uncollectable as per the impairment policy.

Non-performing loans as a proportion of total loans	9.7%
Past due but not impaired accounts as a proportion of total loans	9.9%
Number of non-performing loans	159
Total non-performing loans	309 357

Impaired loans and securities

Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and/ or the stage of collection of amounts owed to the Company.

Non-performing loans

Non-performing loans are loans on which an event of default has occurred for 90 days or more consecutively, and the loans are not accruing interest or principal repayment. This will trigger an immediate impairment. However an impairment is not recorded for non-performing loans that are fully secured.

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are the specific loss component that relates to individually significant exposures, and the collective loan loss allowance established for Company's homogeneous assets in respect of losses that have been incurred but have not been identified.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(i) Credit risk (continued)

Write-off policy

The Company writes off loan balances (and any related allowances for impairment losses) when the Company determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to settle the entire exposure.

Concentrations of credit risk

The 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		Loan Commitments	
	Dec 2018 P' 000	Mar 2018 P' 000	Dec 2018 P' 000	Mar 2018 P' 000
Carrying amount or Amount committed	3 283 392	3 144 914	110 259	70 744
Concentration by sector				
Residential	2 984 972	2 873 965	104 802	70 686
Commercial	298 420	270 949	5 457	58
	3 283 392	3 144 914	110 259	70 744
Concentration by location				
Urban (Includes semi-urban)	3 153 807	2 998 033	107 577	69 758
Rural	129 585	146 881	2 682	986
	3 283 392	3 144 914	110 259	70 744

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of liquidity risk

The 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 company's reputation. The Company is exposed to daily calls on its available cash resources from deposits, maturing shares and loan draw downs.

Experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The 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 Company is monitored on a daily basis. For regulatory purposes, the Building Societies Act, Section 42, requires the Company to maintain certain proportions of its liabilities in liquid assets. The Company also submits a monthly report to the Bank of Botswana which includes the liquidity position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)*4. Financial risk management (Continued)**(ii) Liquidity risk (continued)*

	At 31 Dec 2018 P'000	At 31 Mar 2018 P'000
Total statutory requirement	312 784	286 347
Total cash and cash equivalents, investments or authorised deposits	593 895	858 926
Surplus	281 111	572 579

Exposure to liquidity risk

The liquidity requirement is managed in accordance with the Building Societies Act, Section 42 which states that every Company shall, after making provisions to meet its liabilities other than those mentioned in this section, 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 Company was granted a variation to the requirements of Section 42. The variation now permits the company to hold 10% deposit balances as liquid assets as compared to holding an average of 25% of deposits as liquid assets before 01 April 2012.

The Company complied with requirements of Section 42 (after the variation) during the current and previous financial years.

The Board of Directors sets limits on the level of risk that may be accepted. The Building Societies Act sets limits within which the 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 Company's assets and liabilities on the basis of their earliest possible contractual maturity. The 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 Company holds liquid assets comprising cash and cash equivalents to meet liquidity requirements.

The summary of the Company's contractual liquidity gap position is as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(ii) Liquidity risk (continued)

At 31 December 2018	On demand P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	Over 5 years P'000	Total P'000
Assets						
Cash and cash equivalents	79 530	-	-	-	-	79 530
Investments with banks	123 387	383 681	10 406	-	-	517 474
Short term loans and advances to customers	3 120	6 121	18 381	71 942	-	99 564
Mortgage loans and advances to customers	38 952	77 735	347 240	1 745 374	3 892 406	6 101 707
Other assets	855	952	3 775	8 336	-	13 918
Total assets	245 844	468 489	379 802	1 825 652	3 892 406	6 812 193
Liabilities						
Customer savings and fixed deposit accounts	437 146	389 332	273 564	166 986	525 219	1 792 247
Borrowings	9 910	104 796	276 788	827 688	251 559	1 470 741
Debentures	-	-	6 565	26 280	130 573	163 418
Paid up and subscription savings	-	-	-	407 205	-	407 205
Other liabilities	13 194	-	-	-	-	13 194
Total equity and liabilities	460 250	494 128	556 917	1 428 159	907 351	3 846 805
Net liquidity gap	(214 406)	(25 639)	(177 115)	397 493	2 985 055	2 965 388

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(ii) Liquidity risk (continued)

At 31 March 2018	On demand P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	Over 5 years P'000	Total P'000
Assets						
Cash and cash equivalents	81 008	-	-	-	-	81 008
Investments with banks	344 767	84 073	359 502	-	-	788 342
Short term loans and advances to customers	3 335	5 295	14 237	64 575	-	87 442
Mortgage loans and advances to customers	36 895	73 594	327 932	1 646 230	1 014 399	3 099 050
Other assets	394	1 625	3 517	8 396	-	13 932
Total assets	466 399	164 587	705 188	1 719 201	1 014 399	4 069 774
Liabilities						
Customers' savings and fixed deposit accounts	505 458	171 446	604 700	30 174	-	1 311 778
Borrowings	159 550	31 984	215 407	689 508	419 168	1 515 617
Paid up and subscription shares	-	-	-	527 511	-	527 511
Other liabilities	11 104	-	-	-	-	11 104
Total equity and liabilities	676 112	203 430	820 107	1 247 193	419 168	3 366 010
Net liquidity gap	(209 713)	(38 843)	(114 919)	472 008	595 231	703 764

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(iii) Operational risk

(iii) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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 Company's operations and are faced by all business entities. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restricts initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. The Senior Managers are members of the Operational Risk Management Committee which meets on a quarterly basis to consider the consolidated Operational Risk Report and monitor progress on any outstanding matters. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

1. Requirements from appropriate segregation of duties, including the independent authorisation of transactions
2. Requirements for the reconciliation and monitoring of transactions
3. Compliance with regulatory and other legal requirements
4. Documentation of controls and procedures
5. Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
6. Requirements for the reporting of operational losses and proposed remedial action
7. Development of contingency plans
8. Training and professional development
9. Ethical and business standards
10. Risk mitigation, including insurance where this is effective

Compliance with the 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 Finance and Audit Committee and Executive Management of the Company.

(iv) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the cash flows or fair values of financial instruments because of a change in market interest rates. The risk 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. Asset-Liability Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard interest rate scenarios.

The ICAAP is utilised for assessing and quantifying additional capital requirements due to interest rate risk in the banking book (IRRBB). The capital requirement for IRRBB is measured using an Earnings at Risk methodology whereby the effects of changes in interest rates on the banking book (on- balance sheet and off-balance sheet exposures) derived from the effect on Net Interest Income (NII). Interest rate movements affect reported equity as increases or decreases in net interest income and the fair value changes are reported in profit or loss.

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 Company is precluded by the Building Societies Act to the use of any derivatives to manage interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)*4. Financial risk management (Continued)**(iv) Interest rate risk (continued)***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 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:

	31 Dec 2018 P'000	31 Mar 2018 P'000
Total financial assets	3 877 190	4 053 130
Total financial liabilities	(3 885 916)	(3 923 452)
	(8 726)	129 678

The table below presents the 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	(175)	2 594
Equity	(175)	2 594

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:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(iv) Interest rate risk (continued)

At 31 December 2018	0-3 months P'000	3-12 months P'000	1-2 years P'000	2-5 years P'000	Over 5 years P'000	Total P'000
Assets						
Cash and cash equivalents	74 450	-	-	-	-	74 450
Investments with banks	123 108	391 257	-	-	-	514 365
Other assets	13 517	-	-	-	-	13 517
Short term loans and advances to customers	77 297	-	-	-	-	77 297
Mortgage loans and advances to customers	3 161 357	724	4 366	950	30 164	3 197 561
Total assets	3 449 729	391 981	4 366	950	30 164	3 877 190
Liabilities and equity						
Customers' savings and fixed deposit accounts	1 337 203	266 558	160 147	344	-	1 764 252
Borrowings	649 382	84 130	18 441	231 135	143 945	1 127 033
Debentures	102 205	-	-	-	-	102 205
Paid up and subscription savings	405 412	-	-	-	-	405 412
Ordinary shares	-	487 014	-	-	-	487 014
Total liabilities	2 494 202	837 702	178 588	231 479	143 945	3 885 916
Net interest sensitivity gap	955 527	(445 721)	(174 222)	(230 529)	(113 781)	(8 726)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(iv) Interest rate risk (continued)

At 31 March 2018	0-3 months P'000	3-12 months P'000	1-2 years P'000	2-5 years P'000	Over 5 years P'000	Total P'000
Assets						
Cash and cash equivalents	75 625	-	-	-	-	75 625
Investments with banks	428 044	349 874	-	-	-	777 918
Other assets	13 095	-	-	-	-	13 095
Short term loans and advances to customers	87 442	-	-	-	-	87 442
Mortgage loans and advances to customers	3 057 074	163	5 628	1 521	34 664	3 099 050
Total assets	3 661 280	350 037	5 628	1 521	34 664	4 053 130
Liabilities and equity						
Customers' savings and fixed deposit accounts	718 974	536 210	14 078	5 533	-	1 274 795
Borrowings	693 250	111 290	75 000	59 500	236 700	1 175 740
Paid up and subscription shares	527 201	-	-	-	-	527 201
Indefinite period shares and reserves	-	945 716	-	-	-	945 716
Total liabilities	1 939 425	1 593 216	89 078	65 033	236 700	3 923 452
Net interest sensitivity gap	1 721 855	(1 243 179)	(83 450)	(63 512)	(202 036)	129 678

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

v) Capital Management

(v) Capital management

To monitor the adequacy of its capital, the Company uses ratios established by the Bank of Botswana. These ratios measure capital adequacy by comparing the Company's eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk. The Regulator has advised all financial institutions to ensure capital requirements to be based on the Basel II framework. The Company started complying with Basel II in January 2016. As part of Basel II implementation the Company has developed a Capital Management Framework which it now uses to manage its capital position.

For prudential supervisory purposes, Tier 1 capital consists of Ordinary shares together with the statutory and retained earnings reserves. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. The Company has complied with all externally imposed capital requirements throughout the period. The capital adequacy ratio was 28.40% as at 31 December 2018, (31 March 2018: 58.19%). The high ratio recorded on 31 March 2018 was as a result of the requirements of the Building Societies Act (Section 41) which requires the building society to hold certain amounts of permanent capital (Indefinite shares) as a proportion of borrowings. The ratio has since declined from 26 April 2018 following the conversion from a building society to a company. The Company received a waiver to comply with Section 41 during its transition period.

The minimum capital adequacy ratio set by the Bank of Botswana was 15% at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(v) Capital management (continued)

At 31 December 2018	Note	Balance P'000	Risk weight	Weighted value P'000
Capital adequacy				
Tier 1 capital				
Stated capital				487 014
Other revenue reserves				108 528
Regulatory adjustment				(15 860)
				579 682
Tier 2 capital				
Collective impairment				7 726
Unpublished current year's profits				(26 191)
Total unimpaired capital				561 217
Assets				
Cash	5	5 080	0%	-
Other cash balances – claims from banks	5	74 450	20%	14 890
Fixed deposits with banks	6	514 365	20%	102 873
Properties in possession	9	9 190	50%	4 595
Short term loans and advances to customers	8	77 297	0%	-
Long term loans and advances to customers	10	3 197 560		1 526 316
Residential loans secured		2 509 531	35%	878 336
Residential loans unsecured		79 049	75%	59 287
Past due for more than 90 days and specific provision is less than 20% of loan		245 359	100%	245 359
Past due for more than 90 days and specific provision is more than 20% of loan		73 270	50%	36 635
Commercial loans secured		246 668	100%	246 668
Past due exposure where specific provision is less than 20% of the loan		34 627	150%	51 941
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan.		7 125	100%	7 125
Past due exposure where specific provision is equal to 50% or more of the loan.		1 932	50%	966
Intangible assets	11	26 433	100%	26 433
Property, plant and equipment	12	97 770	100%	97 770
Other assets	7	29 118	100%	29 118
<i>Off-Balance sheet assets</i>				
Commitments:		22 052		22 052
Corporate portfolio @ 20%		1 092	100%	791
Retail portfolio @ 20%		20 960	100%	21 261
Total risk weighted assets		4 053 316		1 824 048
Operational risk weighted assets				152 225
Total risk weighted assets				1 976 273
Capital adequacy ratio				28.40%
Regulatory requirement				15.00%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(v) Capital management (continued)

At 31 March 2018	Note	Balance P'000	Risk weight	Weighted value P'000
Capital adequacy				
Tier 1 capital				
Stated capital				945 716
Other revenue reserves				161 934
Regulatory adjustment				(17 536)
				1 090 114
Tier 2 capital				
Collective impairment				6 577
Unpublished current year's profits				49 941
Total unimpaired capital				1 146 632
Assets				
Cash	5	5 383	0%	-
Other cash balances – claims from banks	5	75 625	20%	15 125
Fixed deposits with banks	6	777 918	20%	155 584
Properties in possession	9	13 700	50%	6 850
Short term loans and advances to customers	8	87 442	0%	-
Long term loans and advances to customers	10	3 099 050		1 448 180
Residential loans secured		2 525 365	35%	883 878
Residential loans unsecured		73 755	75%	55 316
Past due for more than 90 and specific provision is less than 20% of loan		212 810	100%	212 810
Past due for more than 90 and specific provision is more than 20% of loan		19 015	50%	9 508
Past due exposure where specific provision is less than 20% of the loan		37 125	150%	55 688
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan.		1 121	100%	1 121
Commercial loans		229 859	100%	229 859
Intangible assets	11	29 227	100%	29 227
Property, plant and equipment	12	96 714	100%	96 714
Other assets	7	21 778	100%	21 778
Off-Balance sheet assets				
Commitments:				
Corporate portfolio @ 20%		12	100%	12
Retail portfolio @ 20%		14 137	100%	14 137
Total risk weighted assets		4 220 986		1 787 607
Operational risk weighted assets				182 735
Total risk weighted assets				1 970 342
Capital adequacy ratio				58.19%
Regulatory requirement				15.00%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (continued)

(vi) Classification of assets and liabilities

The tables below set out the Company's classification of assets and liabilities, and their fair values.

31 December 2018	Note	At amortised cost P'000	FVTPL P'000	FVTOCI 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	Fair value P'000
Assets									
Cash and cash equivalents	5	79 530	-	-	-	79 530	-	79 530	79 530
Investments with banks	6	514 365	-	-	-	514 365	-	514 365	514 365
Other assets	7	13 918	-	-	15 200	5 582	23 536	29 118	27 576
Short term loans and advances to customers	8	77 297	-	-	-	27 622	49 675	77 297	77 297
Mortgage loans and advances to customers	10	3 197 561	-	-	-	463 927	2 733 634	3 197 561	3 670 199
		3 882 671	-	-	15 200	1 091 026	2 806 845	3 897 871	4 368 967
Liabilities									
Customers' savings and fixed deposit accounts	13	1 764 252	-	-	-	1 100 042	664 210	1 764 252	1 767 973
Paid up and subscription savings	14	405 412	-	-	-	-	405 412	405 412	405 412
Borrowings	16	1 127 033	-	-	-	329 287	797 746	1 127 033	1 127 033
Debentures	17	102 205	-	-	-	6 565	95 640	102 205	102 205
Other liabilities	18	13 194	-	-	48 821	62 015	-	62 015	62 015
		3 412 096	-	-	48 821	1 498 030	1 962 887	3 460 917	3 464 638

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(vi) Classification of financial assets and liabilities on the date of initial application of IFRS 9

01 April 2018	Note	Original classification	New classification	Original carrying amount under IAS 39 P'000	New carrying amount under IFRS 9 P'000
Assets					
Cash and cash equivalents	5	Loans and receivables	Amortised cost	81 008	81 008
Investments with banks	6	Loans and receivables	Amortised cost	777 918	777 918
Other assets	7	Loans and receivables	Amortised cost	21 778	21 170
Short term loans and advances to customers	8	Loans and receivables	Amortised cost	87 442	86 974
Mortgage loans and advances to customers	10	Loans and receivables	Amortised cost	3 099 050	3 071 880
				4 067 196	4 038 950
Liabilities					
Customers' savings and fixed deposit accounts	13	Amortised cost	Amortised cost	1 274 795	1 274 795
Paid up and subscription shares	14	Amortised cost	Amortised cost	527 201	527 201
Borrowings	16	Amortised cost	Amortised cost	1 175 740	1 175 740
Other liabilities	18	Amortised cost	Amortised cost	68 813	68 813
				3 046 549	3 046 549

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(vi) Classification of financial assets and liabilities on the date of initial application of IFRS 9 (continued)

01 April 2018	Note	IAS39 Carrying amount at 31 March 2018 P'000	IFRS 9 ECL P'000	IFRS 9 Classification and measurement	IFRS 9 Carrying amount at 01 April 2018 P'000	Amortised cost P'000
Assets						
Amortised cost						
Cash and cash equivalents	5	81 008	-	Amortised cost	81 008	81 008
Investments with banks	6	777 918	-	Amortised cost	777 918	777 918
Other assets	7	21 778	(608)	Amortised cost	21 170	21 170
Short term loans and advances to customers	8	87 442	(468)	Amortised cost	86 974	86 974
Mortgage loans and advances to customers	10	3 099 050	(27 170)	Amortised cost	3 071 880	3 071 880
Total assets		4 067 196	(28 246)		4 038 950	4 038 950
Liabilities						
Amortised cost						
Customers' savings and fixed deposit accounts	13	1 274 795	-	Amortised cost	1 274 795	1 274 795
Paid up and subscription savings	14	527 201	-	Amortised cost	527 201	527 201
Borrowings	16	1 175 740	-	Amortised cost	1 175 740	1 175 740
Other liabilities	18	68 813	-	Amortised cost	68 813	68 813
Total liabilities		3 046 549	-		3 046 549	3 046 549

The impairment allowance on loan commitments issued amounts to P0.075 million and P0.169 million on 01 April 2018 and 31 December 2018 respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(vi) Classification of financial assets and liabilities on the date of initial application of IFRS 9 (continued)

31 March 2018	Note	Loans and receivables P'000	At amortised cost P'000	Held to maturity 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	Fair value P'000
Assets									
Cash and cash equivalents	5	81 008	-	-	-	81 008	-	81 008	81 008
Investments with banks	6	-	-	777 918	-	777 918	-	777 918	777 918
Other assets	7	13 392	-	-	8 396	8 396	13 382	21 778	20 790
Short term loans and advances to customers	8	87 442	-	-	-	22 867	64 575	87 442	87 442
Mortgage loans and advances to customers	10	3 099 050	-	-	-	438 421	2 660 629	3 099 050	3 495 295
		3 280 892	-	777 918	8 396	1 328 610	2 738 586	4 067 196	4 462 453
Liabilities									
Customers' savings and fixed deposit accounts	13	-	1 274 795	-	-	1 247 805	26 990	1 274 795	1 274 795
Paid up and subscription shares	14	-	527 201	-	-	-	527 201	527 201	527 201
Borrowings	16	-	1 175 740	-	-	345 561	830 179	1 175 740	1 175 740
Other liabilities	18	-	11 104	-	57 709	68 813	-	68 813	68 813
		-	2 988 840	-	57 709	1 662 179	1 384 370	3 046 549	3 046 549

NOTES TO THE FINANCIAL STATEMENTS (Continued)**4. Financial risk management (Continued)****(vii) Fair values of financial instruments****(vii) Fair values of financial instruments****Valuation models**

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. This category includes loans and advances to customers and customers' savings and fixed deposit accounts.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value – Fair value hierarchy

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2018	Note	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Assets					
Short term loans and advances to customers	8	-	-	77 297	77 297
Mortgage loans and advances to customers	10	-	-	3 197 561	3 197 561
Other assets – Staff loans		-	-	13 517	13 517
Total		-	-	3 288 375	3 288 375
Liabilities					
Customers' savings and fixed deposit accounts	13	-	1 764 252	-	1 764 252
Total		-	1 764 252	-	1 764 252

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Financial risk management (Continued)

(vii) Fair values of financial instruments (continued)

31 March 2018	Note	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Assets					
Short term loans and advances to customers	8	-	-	87 442	87 442
Mortgage loans and advances to customers	10	-	-	3 099 050	3 099 050
Other assets – Staff loans		-	-	13 095	13 095
Total		-	-	3 199 587	3 199 587
Liabilities					
Customers' savings and fixed deposit accounts	13	-	1 274 795	-	1 274 795
Total		-	1 274 795	-	1 274 795

The carrying amount of the following financial assets and financial liabilities approximates the fair value:

- Investments with banks
- Customer savings
- Borrowings
- Debentures
- Paid up and subscription savings

(viii) Analysis of changes in financing during the year

Reconciliation of movements of liabilities to cash flows arising from financing activities.

	Liabilities Borrowed funds and Debt securities P'000
Balance at 31 March 2018	1 175 740
Receipt of borrowed funds and debt securities	120 000
Repayment of borrowed funds and debt securities	(170 590)
Receipt of borrowed funds	1 125 150
Other changes	
Interest expense	62 300
Interest paid	(60 417)
Total liability-related other changes	1 883
Balance at 31 December 2018	1 127 033

The issue of the debenture instrument was part of the conversion exercise, whereby existing shareholders subscribed for the instrument. There was no exchange of cash on issue of the instrument.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Cash and cash equivalents

5. Cash and cash equivalents	31 Dec 2018 P'000	31 Mar 2018 P'000
Cash balances	5 080	5 383
Balances with banks (call and current accounts)	74 450	74 739
Money market balances	-	886
	79 530	81 008

Interest rates on current, call and money market accounts range from nil to 3.21% (31 March 2018: nil to 3.8%) per annum.

All cash balances held by the company at the reporting date were available for use. None was issued as collateral.

6. Investments with banks

Redeemable within one year	514 365	777 918
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Fixed deposits have terms of up to 12 months (31 March 2018: 12 months) at interest rates ranging from 4.40% to 5.75% (31 March 2018: 3.85% to 5.15%) per annum.

7. Other assets

Rent debtors	401	837
Staff debtors	13 517	13 095
Prepayments and other debtors	15 200	7 846
	29 118	21 778

Lease commitments

At the reporting date the following minimum lease rentals are receivable:

Within one year	5 481	4 421
One to five years	12 938	8 884
	18 419	13 305

Staff debtors and rent debtors

At the reporting date the following are receivable:

Within one year	5 582	5 536
After one year, within five years	8 336	8 396
	13 918	13 932

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 prime less 3% (31 March 2018: prime less 3%) of the Botswana prime lending rate per annum. The term of staff loans varies from six months to sixty months.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Other assets (Continued)

Reconciliation of the expected credit loss allowance on loans and advances to staff (IFRS 9)

	Specific provisions 31 Dec 2018 P' 000	Specific provisions 31 Mar 2018 P' 000
Balance at 31 March 2018 (IAS 39)	-	-
IFRS 9 adjustment-day 1 resulting from estimation of expected credit loss (ECL)	608	-
Balance at 31 March 2018 (IFRS 9)	608	-
Total ECL impairment allowance	(383)	-
Impairment allowance	(385)	-
Interest revenue recognition	2	-
Balance at 31 December 2018 (IFRS 9)	225	-

Under IAS 39 there was no loss allowance on staff loans as they are deducted from source. Under IFRS 9 loss allowance is held together with other loans and advances.

8. Short term loans and advances to customers	31 Dec 2018 P'000	31 Mar 2018 P'000
Gross amounts	78 999	87 442
Impairment allowance	(1 702)	-
Carrying amount	77 297	87 442
Amount to be recovered within one year	27 622	22 867
Amount to be recovered after one year	49 675	64 575
	77 297	87 442

Reconciliation of the expected credit loss allowance on short term loans (IFRS 9)

	Specific provisions 31 Dec 2018 P'000	Specific provisions 31 Mar 2018 P'000
Balance at 31 March 2018 (IAS 39)	-	-
IFRS 9 adjustment-day 1 resulting from estimation of expected credit loss (ECL)	468	-
Balance at 31 March 2018 (IFRS 9)	468	-
Total ECL impairment allowance	1 234	-
Impairment allowance	970	-
Interest revenue recognition	264	-
Balance at 31 December 2018 (IFRS 9)	1 702	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Short term loans and advances to customers (continued)

Section 17(i) of the Society rules requires that security in the form of shares and deposits is held against loans and advances to members and others thus no allowance was held as at 31 March 2018. Under IFRS 9 loss allowance is held together with other loans and advances.

Short term loans are for periods between twelve and sixty months, bear interest at 9.5% (31 March 2018: 9.5%) per annum and are secured by Paid up savings and Subscription savings.

9. Properties-in-possession	31 Dec 2018 P'000	31 Mar 2018 P'000
Balance at beginning of the year	13 700	11 792
Repossessions during the year	7 256	4 972
Disposals during the year	(11 766)	(3 064)
Balance at the end of the year	9 190	13 700
Number of properties in possession - residential	16	17

The properties-in-possession are premises the 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 Company expects to recover the balance within a period of five years depending on expression of interest by the market.

10. Mortgage loans and advances to customers		
Gross amounts	3 283 392	3 144 914
Impairment allowance	(85 831)	(45 864)
Carrying amount	3 197 561	3 099 050
Amount to be recovered within one year	463 927	438 421
Amount to be recovered after one year	2 733 634	2 660 629
	3 197 561	3 099 050

a) Reconciliation of the expected credit loss allowance (ECL) on mortgage loans and advances to customers (IFRS 9)

	Specific provisions 31 Dec 2018 P' 000	Specific provisions 31 Mar 2018 P' 000	Non-specific impairment 31 Mar 2018 P' 000
Balance at 31 March 2018 (IAS 39)	45 864	39 287	6 577
IFRS 9 adjustment-day 1 resulting from estimation of ECL	27 170	-	-
Transition from IAS 39 to IFRS 9	-	(39 287)	(6 577)
Balance at 31 March 2018 (IFRS 9)	73 034	-	-
Total ECL impairment allowance	12 797	-	-
Impairment allowance	8 410	-	-
Interest revenue recognition	4 387	-	-
Balance at 31 December 2018 (IFRS 9)	85 831	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Mortgage loans and advances to customers (Continued)

b) Specific allowance for impairment and interest in suspense- IAS39

	31 March 2018 P' 000
Specific allowance for impairment	
Balance at the beginning of the year	15 638
Impairment loss for the year	6 468
	22 106
Interest in suspense	
Balance at the beginning of the year	13 222
Interest arising during the year	3 959
	17 181
Balance at the end of the year	39 287
General (collective) impairment	
Balance at the beginning of the year	6 685
Impairment loss movement per profit and loss	(108)
Balance at the end of the year	6 577

Mortgage loans are granted up to a maximum period of thirty years. The variable rate loans and advances amount to P3.251 billion (31 March 2018: P 3.106 billion) and P34 million (31 March 2018: P 38 million) are at fixed rates of interest.

Interest is charged at rates between 6.0% and 13.8% (31 March 2018: 6.5% and 11.5%) per annum and loans are secured by a first mortgage bond against the financed property. The rate of interest on staff mortgage loans is 3.5% (31 March 2018: 3.5%) per annum. The Company lends up to 90% of the market value of the property being financed.

The Company experienced challenges with the upgrades performed on its core banking system (Globus T24) in the previous financial year. At the reporting date, the challenges had not been fully resolved and some had an impact on the accurate reporting of loans and advances balances and related accrued interest. These challenges included amongst others:

- *Missing bills* - bills were not being issued for a few months which resulted in the principal amount not decreasing and interest being calculated on the incorrect principal amount. Because of this, customer monthly instalment payments accumulated in the settlement accounts resulting in inaccurate arrears.
- *Bulked interest* - loan contracts had bulked amounts on accrued principal interest. This led to the consequent bills charging only interest and not the principal amounts.
- *Duplicate bills* - same bill ID incorrectly mapped to multiple dates, hence appearing multiple times in the system resulting in customers being overcharged with multiple bills.
- *Interest not accrued* - interest accruals stopped resulting in incorrect interest.
- *Partial payoff error* - this is whereby the accrued penalty interest was not matching with the billed penalty interest amount in the system.
- *Inconsistency of ageing* - between number of days due and overdue status of customer accounts in arrears per the system generated reports. Accurate ageing of customer accounts is key in determining specific impairment provision.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Mortgage loans and advances to customers (Continued)

The challenges were identified through detailed system diagnosis which was performed by Management IT experts engaged to assist with the stabilisation of the core banking system which included the post-implementation review. The above-mentioned resulted in inaccurate reporting of mortgage loans and advances balances, related interest income and inaccurate impairment of mortgage loans and advances and inability to fully rely on the mortgage loan application controls at the reporting date.

Consequently, Management performed manual processes to correct the effect of these inconsistencies. The manual adjustments processed to correct these inconsistencies have been considered as part of the above disclosure. Management has since put measures in place to address the issues related to the system which got upgraded recently.

11. Intangible assets	31 Dec 2018 P'000	31 Mar 2018 P'000
Cost		
Balance at the beginning of the period/ year	45 138	20 634
Acquisitions	-	94
Transfers from capital work in progress	-	24 410
Balance at the end of the period/ year	45 138	45 138
Accumulated amortisation		
Balance at the beginning of the period/ year	15 911	11 352
Amortisation for the period/ year	5 857	4 559
Balance at the end of the period/ year	21 768	15 911
Carrying amounts		
At beginning of the period/ year	29 227	9 282
At end of the period/ year	23 370	29 227

The intangible assets consist mainly of costs incurred in respect of the software system implemented in stages. The intangible assets of the Company have been separately acquired.

Capital work in progress – Intangible assets		
Balance at the beginning of the period/ year	-	9 709
Acquisitions	3 063	14 701
Transfers from capital work in progress	-	(24 410)
Balance at the end of the period/ year	3 063	-
Total intangible asset at the end of the period/ year	26 433	29 227

Details related to the prior period error have been disclosed on note 42.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Property and equipment

	Freehold property Total P'000	Freehold land P'000	Leasehold property P'000	Leasehold land P'000	Equipment, furniture and fittings P'000	Computer hardware P'000	Motor vehicles P'000	Capital work - in - progress	Total P'000
Balance at 1 April 2017	33 793	365	54 576	4 223	25 703	18 545	567	2 545	140 317
Acquisitions	-	-	-	-	353	599	-	2 782	3 734
Transfers	-	-	94	-	3 893	912	-	(4 899)	-
Balance at 31 March 2018	33 793	365	54 670	4 223	29 949	20 056	567	428	144 051
Acquisitions	-	-	-	-	283	568	-	5 826	6 677
Transfers	-	-	-	-	5 077	-	-	(5 077)	-
Balance at 31 December 2018	33 793	365	54 670	4 223	35 309	20 624	567	1 177	150 728
Accumulated depreciation									
Balance as 1 April 2017	-	-	12 190	-	18 322	8 907	403	-	39 822
Depreciation charge for the period	-	-	1 442	-	3 299	2 752	22	-	7 515
Balance at 31 March 2018	-	-	13 632	-	21 621	11 659	425	-	47 337
Depreciation charge for the year	-	-	983	-	2 445	2 176	17	-	5 621
Balance at 31 December 2018	-	-	14 615	-	24 066	13 835	442	-	52 958
Carrying amounts									
At 31 March 2018 (As restated)	33 793	365	41 038	4 223	8 328	8 397	142	428	96 714
At 31 December 2018	33 793	365	40 055	4 223	11 243	6 789	125	1 177	97 770

Details related to the prior period error have been disclosed on note 42.

NOTES TO THE FINANCIAL STATEMENTS (Continued)*12. Property and equipment (Continued)*

The 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 Company and is available for inspection at the following address: Plot 13108-112 Broadhurst, Gaborone, Botswana.

Valuation of properties

Freehold and leasehold land and buildings were valued by an independent professional property valuer, some in March 2019 and others in May 2020, at an open market value of P188.985 million (31 March 2018: P180.435 million).

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

13. Customers' savings and fixed deposit accounts	31 Dec 2018 P'000	31 Mar 2018 P'000
Fixed deposits	877 865	894 721
Letsibogo savings	118 680	116 850
Tlamele mortgage savings	11 386	8 020
Ordinary and special savings	153 944	159 325
Lerako (pensioners' savings account)	48 273	50 859
Lerako B	34 566	40 196
Fixed term deposit	6 482	3 459
SMME Ordinary savings accounts	1 173	1 365
Indefinite period savings	511 883	-
	1 764 252	1 274 795

Fixed deposits have a term ranging from three months to sixty months and earn interest at between 1.50% and 6.0% (31 March 2018: 1.50% and 6.0%) per annum. The Letsibogo savings product is repayable on demand and earns interest between 0.5% and 1.05% (31 March 2018: 0.5% and 1.05%) per annum.

Savings deposits are repayable on demand. The ordinary savings deposit accrues interest at 0.25% (31 March 2018: 0.25%) per annum while the special savings earn interest between 0.5% and 0.85% (31 March 2018: 0.5% and 0.85%) per annum. Tlamele mortgage savings accounts earn interest at 2.25% (31 March 2018: 2.25%) annually. Lerako savings accounts earn interest from 1.75% to 3.50% (31 March 2018: between 1.75% to 3.50%) 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 6.0% (31 March 2018: 6.0%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Paid Up Subscription Savings

14. Paid up and subscription savings	31 Dec 2018 P'000	31 Mar 2018 P'000
Paid up savings	357 678	463 648
Subscription savings	47 734	63 553
	405 412	527 201

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 1.65% and 2.50% (31 March 2018: 1.65% and 2.50%) per annum respectively.

15. Withholding tax		
Tax liability	827	2 698

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

16. Borrowings		
Gross future cash flows		
Unsecured long term – bonds	710 989	680 167
BancABC Botswana Limited	242 365	308 720
International Finance Corporation	362 844	376 362
Stanlib Investment Management Services (Pty) Ltd	154 543	150 369
Total borrowings	1 470 741	1 515 618
Less: future interest payments		
Unsecured long term bonds	(214 107)	(188 064)
BancABC Botswana Limited	(21 010)	(32 166)
International Finance Corporation	(106 259)	(119 358)
Stanlib Investment Management Services (Pty) Ltd	(2 332)	(290)
	(343 708)	(339 878)
Capital amount due at the reporting date (balance carried forward)	1 127 033	1 175 740

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Borrowings (Continued)

	31 Dec 2018 P'000	31 Mar 2018 P'000
Capital amount due at the reporting date (balance brought forward)	1 127 033	1 175 740
Less : Amounts due within one year		
Unsecured long term bonds	(80 982)	(121 177)
BancABC Botswana Limited	(77 634)	(74 085)
International Finance Corporation	(18 460)	(220)
Stanlib Investment Management Services (Pty) Ltd	(152 211)	(150 079)
	(329 287)	(345 561)
Borrowings repayable after one year		
Unsecured long term bonds	415 900	370 926
BancABC Botswana Limited	143 721	202 469
International Finance Corporation	238 125	256 784
	797 746	830 179
The breakdown of the borrowings into principal and accrued interest is presented below:		
Principal balance		
Unsecured long term bonds	491 200	481 200
BancABC Botswana Limited	221 289	277 392
International Finance Corporation	260 000	260 000
Stanlib Investment Management Services (Pty) Ltd	150 000	150 000
	1 122 489	1 168 592
Accrued interest		
Unsecured long term bonds	5 981	11 285
BancABC Botswana Limited	-	-
International Finance Corporation	708	809
Stanlib Investment Management Services (Pty) Ltd	2 211	79
	8 900	12 173
Arrangement fees		
Unsecured long term bonds	(300)	(404)
BancABC Botswana Limited	(641)	(816)
International Finance Corporation	(3 415)	(3 805)
	(4 356)	(5 025)
Capital amount due at the reporting date	1 127 033	1 175 740

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Borrowings (Continued)

BancABC Botswana Limited

The Company currently has three loans with BancABC. Two of the loans are priced at the Botswana prime lending rate less 1% per annum while the other one is priced at the Botswana prime lending rate and are repayable over five years commencing 30 November 2015, 30 June 2017 and 28 February 2018 respectively.

Stanlib Investment Management Services (Pty) Ltd

The loan amounts to P150 million (31 March 2018: P150 million) and is issued as two notes each with an amount of P75 million. The first principal amount of P75 million is payable on 11 March 2019 and the remaining P75 million on 11 April 2019. The interest payments are payable in arrears at the 3 month BoBC rate plus a margin of 500 basis points (31 March 2018: 91- day BoBC rate plus a margin of 500 basis points) per annum.

International Finance Corporation

IFC original loan at P260 million, bears interest rate at the Botswana bank rate plus a margin of 2.1% per annum. Interest is payable every 3 months commencing 5 December 2017. The principal repayment shall commence on the 15th of December 2020 and repays every quarter thereafter. The loan is repayable over five years.

Unsecured long term – bonds

These bonds are listed on the Botswana Stock Exchange and are summarised below:

31 December 2018

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS004	26 November 2019	75 000	Fixed	11.10%
BBS005	3 December 2023	150 000	Fixed	11.20%
BBS007	26 August 2025	86 700	Fixed	9%
BBS008	2 October 2022	45 500	Fixed	7.75%
BBS009	3 March 2022	14 000	Floating	Bank of Botswana Bank rate plus 2%
BBS010	27 December 2028	150 000	Fixed	8% on reducing balance method

31 March 2018

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS004	26 November 2019	75 000	Fixed	11.10%
BBS005	3 December 2023	150 000	Fixed	11.20%
BBS006	4 August 2018	110 000	Floating	91 days BOBC plus 1.50%
BBS007	26 August 2025	86 700	Fixed	9%
BBS008	2 October 2022	45 500	Fixed	7.75%
BBS009	3 March 2022	14 000	Floating	Bank of Botswana Bank rate plus 2%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Debentures

17. Debentures	31 December 2018 P'000	31 March 2018 P'000
Principal balance	101 000	-
Accrued interest on debentures	1 205	-
Balance at the end of the period/ year	102 205	-

The debentures are unsecured, unlisted irredeemable debt instruments with a fixed term of ten years. 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 rate. Interest is payable semi-annually.

18. Other liabilities	31 Dec 2018 P'000	31 Mar 2018 P'000
Accounts payable	13 194	11 104
Mortgage deferred administration fees	14 966	12 136
Other creditors	760	469
Dividend payable	-	13 317
Bonus accrual	-	7 087
Other payroll liabilities	9 008	8 516
Accrued interest on deposits	14 755	16 138
Accrued interest on paid up shares	9 332	46
Loan commitments issued – allowance for impairment	169	-
	62 184	68 813

The accounts payable include amounts payable to creditors.

Balance at the beginning of the period/ year	9 102	21 832
Creditors provisions made during the period/ year	1 714	(2 335)
Creditors provisions used during the period/ year	(2 982)	4 099
Creditors provisions written off	-	(14 494)
Balance at the end of the period/ year	7 834	9 102

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Other liabilities (Continued)

Reconciliation of the expected credit loss allowance (ECL) on loan commitments (IFRS 9)

	Specific provisions 31 Dec 2018 P'000	Specific provisions 31 Mar 2018 P'000	Non-specific impairment 31 Mar 2018 P'000
Balance at 31 March 2018 (IAS 39)	-	-	-
IFRS 9 adjustment-day 1 resulting from estimation of ECL	75	-	-
Balance at 31 March 2018 (IFRS 9)	75	-	-
Impairment allowance	94	-	-
Balance at 31 December 2018 (IFRS 9)	169	-	-

19. Ordinary shares and Indefinite period shares	31 Dec 2018 P'000	31 Mar 2018 P'000
Issued		
Ordinary shares	487 014	-
Indefinite period shares	-	945 716
Ordinary shares		
Balance at the beginning of the period/ year	-	-
Issue of shares	487 014	-
Balance at the end of the period/ year – fully paid	487 014	-
Authorised par value P1	487 014	-

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

Indefinite period shares		
Balance at the beginning of the period/ year	945 716	872 709
Issue of shares	-	102 980
Redemption of shares	-	(29 973)
Conversion adjustments	(945 716)	-
Balance at the end of the period/ year	-	945 716

Applicable before 26 April 2018

Indefinite period savings earn interest at the Botswana prime lending rate less 0.5%, being 6.0% (31 March 2018: 6.0%) per annum.

The shareholder shall not be entitled at any time to demand redemption, but the Society shall be entitled to redeem these shares, upon 6 months' notice, which may be tendered 12 months from the date of deposit. The Board may, at its discretion, issue indefinite period shares and all such shares shall accrue dividends distributed out of the available profits of the Society. The rates of dividends on the shares 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. As at 31 December 2018 indefinite period shares earned a coupon rate of 6% (31 March 2018: 6%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)*19. Ordinary shares and Indefinite period shares (Continued)***Applicable after 26 April 2018**

The Company revised its capital structure during the period. The change of the capital structure involved conversion of equity instruments which existed in the previous financial year totalling P945 million to Ordinary shares, debts instruments and fixed term deposits. The share allocation was guided by the following criteria:

- Existing equity holders given an opportunity to apply for and purchase shares using their existing equity investments
- Free allocation to qualifying customers. Where certain qualifying members had outstanding short-term loans and advances which were collateralised by a portion of the equity investments, a usable balance was determined to ensure adequate investments are retained as collateral

As a result of these changes, the balance of Indefinite period shares was nil at the reporting date.

20. Reserves**Statutory reserve**

The statutory reserve fund is established in terms of paragraph 39 of the Building Societies Act. The Act requires the Company to set aside a minimum of 10% of its undistributed profits into the reserve fund. The Company may charge against the reserve fund any net loss remaining after applying such loss against any undistributed profits brought forward from previous years.

	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Balance at the beginning of the period/ year	124 462	119 468
Transfer in	-	4 994
Transfer to ordinary shares	(10 266)	-
Payment to shareholders-conversion	(759)	-
Balance at the end of the period/ year	113 437	124 462

General market risk reserve

The general market risk reserve has been established in terms of rule 73 of the rules of BBS Limited rules to cover general market risks. There are no restrictions on the application of funds in this reserve.

Balance at the beginning of the period/ year	64 000	64 000
Transfer to ordinary shares	(64 000)	-
Balance at the end of the period/ year	-	64 000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Interest income

21. Interest income	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Cash and cash equivalents	17 994	28 425
Long term loans and advances	194 999	265 958
Short term loans and advances	7 038	8 696
Total interest income calculated using the effective interest method	220 031	303 079
The breakdown of interest income on gross basis and interest revenue recognition adjustment is presented below:		
Gross interest income		
Cash and cash equivalents	17 994	28 425
Mortgage loans and advances	199 386	265 958
Short term loans and advances	7 304	8 696
	224 684	303 079
Interest revenue recognition adjustment		
Cash and cash equivalents	-	-
Mortgage loans and advances	(4 387)	-
Short term loans and advances	(266)*	-
	(4 653)	-
Net interest income	220 031	303 079

* Includes interest revenue recognition on staff debtors-loans of P0.002 million.

22. Interest expense		
DPCFL loans	-	78
Unsecured loan term bonds	29 427	40 580
Term loans	32 873	32 894
Debentures	4 497	-
Paid up and subscription savings	5 522	10 326
Fixed deposits	27 737	45 535
Savings accounts	3 585	5 845
Indefinite period savings	24 926	-
Total interest expense	128 567	135 258

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Net fee and commission income

23. Net fee and commission income

A. Disaggregation of fee and commission income

Fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services below.

	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Fee and commission income		
Administration fees	3 575	3 841
Account services	4 877	7 545
Transactional	2 972	3 132
Commissions	4 307	6 684
	15 731	21 202
Fee and commission expense		
Interbank transaction fees	(818)	(1 105)
Net fee and commission income	14 913	20 097

B. Contract balances

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

Contract liabilities which are included in other liabilities	14 966	12 136
--	--------	--------

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 Company recognises revenue when it transfers control over a service to a customer.

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 FINANCIAL STATEMENTS (Continued)

23. 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 (applicable from 01 April 2018 for the Company)
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 Company.	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	Other fees and commission relate mainly to transaction and service fees.	The fees are recognised as the services are performed and received.
Transactional income	Other fees and commission relate mainly to transaction and service fees.	The fees are recognised as the services are performed and received.
Commissions income	Other fees and commission relate mainly to transaction and service fees.	The fees are recognised as the services are performed and received.

24. Other operating income	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Rental income	3 393	4 578
Sundry income	133	277
	3 526	4 855

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Expected Credit Losses

25. Expected credit losses	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Expected credit losses on financial assets		
Impairment allowance-excluding interest revenue recognition		
Expected credit loss allowance-mortgages	8 410	-
Expected credit loss allowance-mortgages-Loan commitments	94	-
Expected credit loss allowance-short loans	970	-
Expected credit loss allowance-staff loans	(385)	-
Specific impairment	-	10 427
General impairment	-	(108)
1	9 089	10 319
Write-down on non-financial assets		
Net loss on disposal of properties sold in execution	2 5 442	3 951
3	14 531	14 270
Interest revenue recognition		
Mortgage loans and advances	4 387	-
Short term loans and advances	264	-
Staff debtors-loans	2	-
4	4 653	-
5	19 184	14 270

Note

3 Sum of 1 and 2

5 Sum of 3 and 4

Write-downs of non-financial assets to net realisable value amounted to P6.481 million (31 March 2018: 6.780 million). The Company recovered P1.039 million (31 March 2018: 2.829 million) from previous write-downs as a result of proceeds from sale exceeding the net realisable amount or payments received from customers.

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 period 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. For December 2018 Management performed an out of model adjustments where there were inconsistencies between inputs applied in the model actual characteristics of the loan and data available at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Personnel expenses

26. Personnel expenses	31 Dec 2018 9 months P'000	31 Mar 2018 12 months P'000
Salaries and wages	47 722	56 440
Pension fund contributions	4 100	5 045
Bonus accrual-current year	-	7 087
Leave pay accrual	1 464	2 232
Fair value adjustment- off market staff loans	2 313	(28)
	55 599	70 776

27. Depreciation and amortisation

Depreciation charge	5 621	7 515
Amortisation charge	5 858	4 559
	11 479	12 074

28. Operating lease expenses

Cash payments	2 292	2 561
Movement in operating lease liability	(54)	(69)
	2 238	2 492

The Company had the following outstanding commitments under operating lease agreements for its branch premises at the reporting date:

Within one year	3 112	2 581
One to five years	14 600	12 285
	17 712	14 866

29. Other expenses

Directors' fees	1 100	1 233
Audit fees – current year	2 262	1 227
Advertising and marketing	3 508	1 481
Computer maintenance expense	3 215	5 184
Insurance	1 156	1 436
Legal and professional expenses	9 859	2 801
Licence fees	12 039	10 508
Repairs and maintenance	3 514	4 136
Stationery and printing	1 100	356
Telephone and postage	2 411	3 926
Travel and subsistence	2 152	2 017
Office supplies	1 530	1 346
Security expenses	2 186	3 230
Subscriptions	79	311
Water and electricity	1 212	135
Other expenses	1 622	1 079
Net input VAT not claimable	3 302	2 814
	52 247	43 220

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Dividend per share

30. Dividend per share	31 Dec 2018 P'000	31 Mar 2018 P'000
The dividend per share has been calculated by dividing the dividend declared to ordinary shareholders by the balance of ordinary shares at the time of declaration.		
Dividend to ordinary shareholders (31 March 2018: Indefinite shareholders)	-	57 805
Ordinary shares (31 March 2018: Indefinite shares)	487 014	954 479
Dividend per share (thebe)	-	6.1

31. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of indefinite period shares during the year.

(Loss)/ profit attributed to shareholders	(26 191)	49 941
Weighted average number of ordinary shares in issue	530 382	911 074
Earnings per share (thebe)	(4.9)	5.5
Indefinite period shares at the beginning of the period/ year	945 716	872 709
Effect of shares in issue	-	49 074
Effect of shares redeemed	(415 334)	(10 709)
Weighted average number of indefinite period shares for the period/ year	530 382	911 074

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.

32. Commitments

Commitment in respect of mortgages approved but not yet disbursed	110 259	70 744
Capital expenditure - approved but not yet committed	68 704	48 157
Capital expenditure - approved and committed	2 867	2 133

Commitments will be met from the company's own resources.

33. Related party transactions

BBS 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 Limited are set out below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Related party transactions (Continued)

33.1 Amounts due to related parties

33.1 Amounts due to related parties:	31 Dec 2018 P'000	31 Mar 2018 P'000
Savings accounts		
Held by the BBS Limited Executive members	593	653
Interest expense on savings accounts		
Held by the BBS Limited Directors	-	47
Held by the BBS Limited Executive members	7	13
	<u>7</u>	<u>60</u>
Paid up, subscription and indefinite period paid up savings		
Held by the BBS Limited Directors	-	13 312
Held by the BBS Limited Executive members	3 541	3 361
	<u>3 541</u>	<u>16 673</u>
Interest expense on paid up, subscription and indefinite period paid up savings		
Held by the BBS Limited Directors	-	779
Held by the BBS Limited Executive members	95	187
	<u>95</u>	<u>966</u>
Ordinary share accounts		
Held by the BBS Limited Executive members	884	-
	<u>884</u>	<u>-</u>
Indefinite period paid-up savings		
Motor Vehicle Accident Fund	85 377	202 377
Botswana Privatisation Asset Holdings	71 158	177 511
Botswana Police Staff Savings and Loans Guarantee Scheme	131 931	167 531
Total amounts due to related parties	<u>288 466</u>	<u>547 419</u>
Interest expense on indefinite period paid up savings		
Motor Vehicle Accident Fund	3 563	11 858
Botswana Privatisation Asset Holdings	2 744	10 401
Botswana Police Staff Savings and Loans Guarantee Scheme	4 031	9 444
Total amounts due to related parties	<u>10 338</u>	<u>31 703</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Related party transactions (continued)

33.1 Amounts due to related parties (continued)

	31 Dec 2018 P'000	31 Mar 2018 P'000
Debentures		
Motor Vehicle Accident Fund	41 489	-
Botswana Privatisation Asset Holdings	50 597	-
Botswana Police Staff Savings and Loans Guarantee Scheme	-	-
	92 086	-
Interest expense on debentures		
Motor Vehicle Accident Fund	1 825	-
Botswana Privatisation Asset Holdings	2 226	-
Botswana Police Staff Savings and Loans Guarantee Scheme	-	-
	4 051	-
Ordinary shares		
Motor Vehicle Accident Fund	36 793	-
Botswana Privatisation Asset Holdings	72 325	-
Botswana Police Staff Savings and Loans Guarantee Scheme	44 824	-
	153 942	-

Motor Vehicle Accident Fund is a related party as it is wholly owned by the Government of Botswana.

Botswana Privatisation Asset Holdings is wholly owned by the Government of Botswana whereas the Botswana Police Staff savings and loans guarantee scheme is owned by its employees.

33.2 Amounts due from related parties

Mortgages		
Held by the BBS Limited Non-Executive Directors	78	2 063
Held by the BBS Limited Executive members	33 685	31 280
Held by Shareholders	547 460	31 681
	581 223	65 024
Short term loans		
Held by the BBS Limited Non-Executive Directors	-	5
Held by the BBS Limited Executive members	532	231
Held by Shareholders	86 517	-
	87 049	236
Staff loans		
Held by the BBS Limited Executive members	3 250	2 870
Held by Shareholders	7 749	-
	10 999	2 870
Total amounts due from related parties	679 271	68 130

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Related party transactions (Continued)

33.2 Amounts due from 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. No impairment losses have been recorded against mortgage loans and advances to related parties.

33.3 Loan commitments	31 Dec 2018 P'000	31 Mar 2018 P'000
Held by the BBS Limited Non-Executive members	-	-
Held by the BBS Limited Executive members	-	788
Held by Shareholders	16 621	2 014
	16 621	2 802

33.4 Amounts paid to related parties Related party	Nature of transaction	31 Dec 2018 P'000	31 Mar 2018 P'000
Board of directors	Remuneration fees	1 100	1 233
Board of directors	Interest expense	-	826
BBS Limited Executive management	Interest expense	101	199
		1 201	2 258

Executive Management

Gross emoluments of the key management personnel are analysed as follows:

Salaries, allowances and other short term benefits	12 130	12 300
Post-employment benefits	3 203	3 721
	15 333	16 021

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

33.5 Amounts received from related parties		31 Dec 2018 P'000	31 Mar 2018 P'000
Board of directors	Interest income	111	154
Executive management	Interest income	1 232	1 518
Shareholders	Interest income	36 400	1 733
		37 743	3 405

34. Events after the reporting date

Globus T24 system challenges

BBS Limited implemented Globus T24 system in the prior year reporting period on 01 October 2017.

The system experienced bugs which affected some accounts on T24 system post-implementation. A reconciliation

NOTES TO THE FINANCIAL STATEMENTS (Continued)**34. Events after the reporting date (Continued)**

exercise was carried out for the affected customer accounts starting July 2019 in order to quantify the impact of error on mortgage loans, short term loans, staff loans and savings products. The consequential adjustments were processed in the general ledger at the reporting date and at T24 individual account level subsequent to period end to eliminate the impact of the inaccuracies that existed at the reporting date.

Increase in stated capital

The stated capital increased from P487,014 million to P487,453 million due to adjustments on some applications following a full review of all applications for any errors and omissions subsequent to the reporting date. The adjustments were approved by the Board on 28 May 2019 and were successfully registered with Botswana Stock Exchange Limited in November 2019.

Impact of the COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared COVID-19 outbreak a pandemic due to its rapid spread across the globe. The President of the Republic of Botswana declared a state of emergency for 6 months and a national lockdown for the whole of Botswana for 28 days with effect from 02 April 2020, for purposes of preventing, controlling and suppressing the spread of the virus. The national lockdown was extended by a further 7 days as considered necessary by the presidential COVID-19 task force. As at the date of publishing these financial statements, there were 48 reported cases of people infected with coronavirus in Botswana. On the 16th of June 2020 the number of probable cases had increased to 16 and out of these, 10 were negative. Results of six others are still pending.

The COVID-19 pandemic occurred subsequent to the 31 December 2018 reporting period and will therefore not have an impact on the recognition and measurement of assets and liabilities in the financial statements of the Company for the period.

Due to the impact of the pandemic, household incomes are under pressure from loss of jobs or business. Monitoring of liquidity levels for financial institutions has become critical due to the rise in the level of withdrawal of customer deposits. Customers access their savings to spend on necessities such as food and hygiene products. The measures taken by the Government such as the lockdown to contain the spread of the virus has resulted in reduced numbers of customers who visit our facilities. Liquidity levels are monitored daily and are reported to the Central Bank.

The COVID-19 virus is expected to have a negative impact on the level of impairments due to the reduction in household income from sectors that are largely affected by the pandemic and the resultant lockdown. Management will continue to apply due diligence when assessing the creditworthiness of potential customers and work closely with valuers who appraise collateral especially for possible impact from the pandemic and prevailing conditions. The collections of payments from customers will be closely monitored so that the necessary action is taken timeously.

In order to estimate the impact of COVID-19 during the subsequent period Management has performed an assessment on key financial reporting areas. For purposes of determining the impact of the outbreak three scenarios were considered being:

- the mild impact of up to two months,
- moderate impact of up to six months and
- severe impact being lockdown for up to twelve months.

The results of the assessment show that the Company will continue as a going concern because both the capital and liquidity levels will remain above the regulatory requirements.

For the scenarios analysed, BBSL will have enough liquid assets to honour the short-term obligations. The liquid ratio achieved exceeds the central bank threshold of 10%. Despite the envisaged unfavourable impact of the pandemic BBSL will maintain a strong capital base with a capital adequacy ratio (CAR) that exceeds the Central Bank limit for all the studied scenarios. The regulatory limit of CAR was revised downwards from 15% to 12.5% effective 01 April 2020 as part of monetary policy measures taken by the Government to assist banks with the pressure from the pandemic.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. Events after the reporting date (Continued)

The COVID 19 pandemic occurred subsequent to the 31 December 2018 and 31 December 2019 reporting period and will therefore not have an impact on the recognition and measurement of assets and liabilities in the financial statements of the Company for the aforementioned periods. However, in order to estimate the impact of COVID-19 during the subsequent period management has performed an assessment on key financial reporting areas when determining the impact of the outbreak on the health status of the Company. For purposes of determining the impact of the outbreak three scenarios were considered being the mild impact of up to two months, moderate impact of up to six months and severe impact being lockdown for up to twelve months.

An estimate of the financial effect of the scenarios assessed is presented below:

Ratio	Base: Dec 2020 Budget	Mild Impact	Moderate Impact	Severe Impact
Liquid assets to short term liabilities ratio	30.6%	29.3%	26.0%	11.4%
Cost to Income ratio	121.4%	116.7%	122.0%	134.3%
Capital Adequacy Ratio	19.19%	17.13%	16.93%	16.09%

Despite the envisaged unfavourable impact of the pandemic BBSL will maintain a strong capital base with a capital adequacy ratio (CAR) that exceeds the Central Bank limit for all the studied scenarios. The regulatory limit of CAR was revised downwards from 15% to 12.5% effective 01 April 2020 as part of monetary policy measures taken by the government.

Management is of the view that the significant doubt associated with the current uncertainties related to the COVID -19 virus does not result in a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

35. Going concern

The Company incurred a net loss of P26 million (31 March 2018: profit of P50 million) for the period ended 31 December 2018 and as of that date its total assets exceeded total liabilities by P569 million. (31 March 2018: P1.157 billion), a reduction of P588 million from prior year. That lead to the liquid assets to deposits ratio standing at 26.60% (31 March 2018: 33.19%) at the reporting date which is above the regulatory threshold of 10%.

The significant change in the net asset position of the Company resulted from a deliberate change in the capital structure which was part of the demutualization of BBSL from a building society to a Company limited by shares. The loss position is expected to continue for a period exceeding 12 months after the reporting date. This is largely driven by the envisaged increased costs as part of the journey to transition into a commercial bank.

Plans are underway to develop a new strategy for the new bank which is expected to turnaround the loss-making position of the Company. The success of the new strategy is dependent on obtaining a banking license which will enable the company to introduce a wide range of products and services. Management expects to submit the banking license application once the financial statements for December 2019 which are part of the requirements have been finalised.

Currently, the Company funds its operating costs from current reserves and capital. Cash and cash equivalents and Investments stood at P594 million at the reporting date (31 March 2018: P859 million), as disclosed in note 6 and 7. Management forecasts indicate adequate reserves and cash and cash equivalent balances over a forecasted position of four years from the reporting date.

The Company's financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and

NOTES TO THE FINANCIAL STATEMENTS (Continued)**35. Going concern (Continued)**

settlement of liabilities will occur in the ordinary course of the business.

Refer to note 34 above for the separate impact assessment of the Covid-19 pandemic on the Company's financial statements.

36. Litigations

BBS 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 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.

37. Compliance with sections 39, 41 and 42 of the Building Societies Act

BBS Limited complied with the requirements of Sections 39, 41 and 42 of the Building Societies Act, as varied by the Register of Building Societies.

38. Operating segments

BBS Limited has no separate segments for consideration by the Managing Director as its main business consists of providing mortgage facilities and advances to individual and corporates in Botswana. The chief operating decision maker of the Company is considered to be the Managing Director.

The main business of the Company is evaluated as a whole by the Managing Director.

39. Shareholder information	31 December 2018 No of shares held	31 December 2018 % holding
Botswana Privatisation Asset Holding (Pty) Ltd	72 325	14.85
Botswana Police Staff Savings and Loans Guarantee Scheme	44 823	9.20
Motor Vehicle Accident Fund	36 793	7.55
Ms. Rita Brink	35 341	7.26
Mr. Derek Brink	25 872	5.31
Mr. Simon Hirschfeld	13 191	2.71
Estate of late Abdul Joseph	12 191	2.50
Mr Derek Brink-2	12 139	2.49
Botlhale Investments (Pty) Ltd	11 966	2.46
Ms. Lerie Brink	11 037	2.27
Others	211 336	43.40
Total shareholding	487 014	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40. Change in financial period end

40. Change in financial period end

On 26 April 2018 Botswana Building Society went through a demutualisation process by converting from a building society to a company limited by shares. Upon incorporation the Company adopted a new financial year end of 31 December, as opposed to the 31 March year end for the building society. The financial statements therefore cover a period of 9 months ended 31 December 2018.

41. Contingent liability

As at end of December 2018 BBSL Board approved a retrenchment policy in view of the impending change of the company to a commercial bank. The policy may be used alongside other strategies to enable the acquisition of the required skills for the organisation. On its journey to becoming a bank the human resource strategy will be to re-train, redeploy, recruit and retrench where applicable. 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. Subsequent to the reporting date, Management estimated an amount of P35 million as separation packages. The retrenchment exercise partially begun subsequent to period end in 2020 but only to the extent that the company can do so while operating as a Society but not yet a commercial bank. The full exercise will take place once the Company has received approval of the banking license which will enable them to convert to a commercial bank. The timing of such approval cannot be reliably estimated therefore it is not known when the retrenchment exercise may commence.

42. Prior year restatement

Starting from the year 2016 the Company invested a significant amount in the upgrade of its core banking system, Globus T24. The system was implemented and capitalised in October 2017. The Company has maintained one category of work in progress (WIP) that comprised of Property and Equipment (PPE) and Intangible Assets. The WIP category was disclosed at the PPE note and formed part of the PPE carrying amount at the balance sheet. The treatment has given rise to errors in respect of the disclosure of PPE and Intangibles in the financial statements. The error resulted in the overstatement of PPE and understatement of intangible assets.

To correct this error WIP asset is recognised at the appropriate asset category. WIP property and equipment is recognised under PPE and WIP intangible under intangible assets at a time that the costs are incurred. The accounting policy has been maintained.

Impact on the financial statements – 31 March 2018

- The WIP balance at the end of the 31 March 2018 reporting period is made up of PPE only. The balances of the PPE and intangible assets captions remain unchanged at the balance sheet. The disclosure presents the correct opening balances for PPE and Intangible asset. The movement within the WIP asset is reflected at the PPE category or Intangible asset depending on the nature of the cost.
- There is no change to the capital adequacy ratio.
- There is no financial impact at the Statement of profit or loss and comprehensive income, statement of changes in equity nor the statement of cash flows.

Impact at the financial statements – 01 April 2017

- An amount of P9.709 million is reclassified from WIP-PPE and reported under WIP-Intangibles. The PPE balance at the end of the reporting period is restated from P110.204 million and to P100.495 million.
- The intangible asset balance at the end of the reporting period is restated from P9.282 million to P18.991 million.
- The capital adequacy ratio is updated from 61.43% to 61.21%. This is not considered material to warrant restatement of the capital adequacy ratio.
- There is no financial impact at the Statement of profit or loss and comprehensive income, statement of changes in equity nor the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42. Prior year restatement (Continued)

Accounting for the prior period error

The comparative amounts for 31 March 2018 and 01 April 2017 reporting periods are presented below.

RESTATED STATEMENT OF FINANCIAL POSITION At 31 March 2018	Notes	31 March 2018 P'000	01 April 2017 P'000
Assets			
<i>Intangible assets</i>			
Intangible assets – As previously stated	11	29 227	9 282
Adjustment		-	9 709
Intangible assets – As restated		29 227	18 991
<i>Property and equipment</i>			
Property and equipment – As previously stated		96 714	110 204
Adjustment		-	(9 709)
Property and equipment – As restated	12	96 714	100 495

BBS LIMITED NOTICE OF 2018 ANNUAL GENERAL MEETING

BBS LIMITED NOTICE OF 2018 ANNUAL GENERAL MEETING

Notice is hereby given that the second Annual General Meeting of shareholders of BBS Limited (“BBSL”) will be held VIA ZOOM TECHNOLOGY in observance of the State Of Emergency Regulations against COVID-19 on Thursday 23 July 2020 starting at 09h00am or any adjournment or postponement thereof, to: (i) consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out below, and (ii) deal with such other business as may be dealt with at the meeting.

To attend the AGM, BBSL Shareholders should access the link “BBSL 2018 Annual General Meeting Registration” in the BBSL website for verification purposes. Upon successful verification during registration, an email with the AGM credentials will be emailed to the Shareholder. On the day of the AGM Shareholders must start logging in from 8:15am. Shareholders are also urged to consult clauses on proxies and proxy forms as outlined in the BBSL Constitution, a copy of which is available on the BBSL website by accessing the link “BBSL Constitution”. The clauses are paraphrased in the “Notes” section of this Notice.

Proxy Forms must be received by the Company Secretary 48 HOURS before the start of the meeting either by email at bbs@bbs.co.bw, or delivered at BBSL Head Office 4th Floor (see location details in the “Notes” section below) or at any BBSL Branch across the country.

The notice appointing a proxy must state whether the appointed is for a particular meeting or a specified term not exceeding 12 months. Further, a body corporate which is a Shareholder may appoint a representative to attend a meeting of Shareholders on its behalf in the same manner as that in which it would appoint a proxy. Shareholders may also appoint the Company Secretary as their proxy.

ORDINARY BUSINESS

Ordinary resolutions (“Ordinary Resolution” means a resolution of shareholders approved by a simple majority of the votes of those Shareholders entitled to vote and voting on a question.)

Therefore, each of the ordinary resolutions number 1 to 3 requires the support of more than 50% of the votes exercised on the resolution in order to be approved.

1. To read the notice convening the meeting.

2. Ordinary Resolution No. 1

To accept and adopt of Minutes of the Annual General Meeting held on 28 September 2018.

“Resolved that the Minutes of the BBS Annual General Meeting held on 28 September 2018 be and are hereby approved”.

Additional information in respect of Ordinary Resolution No. 1

The minutes of the Annual General Meeting held on 28 September 2018 have been emailed to Shareholders or may be requested from the Company Secretary at bbs@bbs.co.bw

3. Ordinary Resolution No.2

To accept and adopt annual financial statements, auditor’s report and the annual report.

“Resolved that the audited financial statements of the Company, including the Independent Auditor’s Report, Directors’ Report and the Finance and Audit Committee’s Report, for the year ended 31 December 2018, be and is hereby accepted and adopted.”

Additional information in respect of Ordinary Resolution No. 2

BBS LIMITED NOTICE OF 2018 ANNUAL GENERAL MEETING

The full set of annual financial statements of the Company for the 2018 financial year are available on our website, have been emailed to Shareholders and are available by request from the Company Secretary at 3971396 or bbs@bbs.co.bw.

4. Ordinary Resolution No.3

To ratify the appointment of the independent external auditor KPMG. Following the overlapping 2018 and 2019 financial audits because of system challenges that BBSL experienced, which also made it impossible to hold an AGM in 2018 that would have enabled Shareholders to appoint the auditors for 2019, the BBSL Board of Directors received legal advice that the external auditors KPMG may commence the 2019 financial audit as they remain BBSL auditors in accordance with the Companies Act. The appointment of KPMG by the BBSL Board would then be ratified by Shareholders at the 2018 AGM, now being held in 2020, hence the resolution:

Resolved that the appointment of KPMG as the independent external auditor of BBS Limited until the conclusion of the next annual general meeting in accordance with section 191(1) of the Companies Act, 2009 be and is hereby ratified.

5. Ordinary Resolution No.4

To appoint the following individual to the BBS Limited Board as an additional Director, in accordance with Clause 88.1 of the Constitution. a. Mr. Geoffrey M. Bakwena* - Non Executive Director

Resolved that Mr. Geoffrey M. Bakwena be and is hereby appointed to the BBS Limited Board of Directors.

*Mr Geoffrey M. Bakwena be and is hereby appointed to the BBS Limited Board of Directors.

Mr Geoffrey M. Bakwena's profile has been emailed to Shareholders, is available on the BBSL website or may be requested from the Company Secretary at 3971396 or bbs@bbs.co.bw.

SPECIAL BUSINESS

Special Resolution ("Special Resolution" means a resolution of Shareholders approved by a majority of at least 75% of the votes of the Shareholders entitled to vote and voting on a question.")

6. Special Resolution No.1

To ratify amount donated to charitable entities

Resolved that donations made to various deserving charitable organisations made in terms of Section 128 of the Companies Act Cap 42:01 amounting to P640, 000.00 for the year ended 31 December 2018 be and are hereby ratified.

7. Special Resolution No.2

To approve that up to 2% of profits made to be donated to charitable entities as would be determined by Management from time to time.

Resolved that every year the company set aside up to 2% of the profits of the company to be donated by Management to various deserving charitable entities in terms of Section 128 (1) (C) of the Companies Act Cap 42:01. 8. Special

8. Special Resolution Resolution No.3

To make changes to the Constitution of BBS Limited

Resolved that amendments to clauses of the BBSL Limited Constitution as indicated below be and are hereby approved with immediate effect:

BBS LIMITED NOTICE OF 2018 ANNUAL GENERAL MEETING

Clause	Rationale for amendment	Proposed amended clause
Proposed New Clause: 2.2.27	The Building Societies Act (“BSA”) as amended to facilitate demutualisation allows a building society to carry on the business of a building society after it converts to a company but before it attains a banking license and changes into a commercial bank. The Companies Act as amended also states that the conversion of a building society into a company does not create a new entity and all rights and obligations existing before the change continue after the change. Nonetheless the Constitution of BBSL needs to capture this as much as the objects of a building society as stated at Section 17 of the BSA were captured in the BBS Rules as the Act merely provides the statutory framework and the Rules purposely state what a specific building society has opted to adopt as its objects against this general statutory framework.	In particular, during its transition period before it acquires a full commercial bank license, the Company may carry out any of the purposes stated under Section 17 of the Building Societies Act in line with Section 67D(1) of the Building Societies Act (as amended) as read with Section 359 (1) of the Companies Act (as amended) as though all the objects have been stated individually within this Constitution.
Clause 44.1: Subject to the consent of any bankers or third party financiers providing funds to the Company (to the extent required and other than from any of the shareholders who have provided shareholder loans to the Company), the Board shall decide on the recommendation of the Chief Financial Officer a percentage of the Company’s annual net profits that will be made available for distribution to its shareholders as dividends in proportion to their shareholding in the Company which net profits will be calculated after full provision has been made for:	Chief Finance Officer is subordinate to the Managing Director and recommendation must be that of the Managing Director, even if the technical work was done by the Chief Finance Officer.	44.1. Subject to the consent of any bankers or third party financiers providing funds to the Company (to the extent required and other than from any of the shareholders who have provided shareholder loans to the Company), the Board shall decide on the recommendation of the Managing Director a percentage of the Company’s annual net profits that will be made available for distribution to its shareholders as dividends in proportion to their shareholding in the Company which net profits will be calculated after full provision has been made for:
Clause 58.2: If no chairperson has been elected or if, at any meeting of shareholders, the chairperson is not present within 30 minutes of the time appointed for the commencement of the meeting, the shareholders present may choose one of the number to chair the meeting.	If the Chairman is late or not available, present Directors should be given the opportunity to appoint a Chairman for the general meeting from amongst their number. If there are none present or of those present decline to preside then shareholders choose a chairman from amongst themselves.	58.2. If no chairperson has been elected or if, at any meeting of shareholders, the chairperson is not present within 30 minutes of the time appointed for the commencement of the meeting, the directors present shall choose a director as the Chairman and if no directors be present or if those present at the time of the meeting decline to preside, the shareholders present may choose one of the number to chair the meeting.
Clause 85: The Chief Executive Officer is, subject to the terms of any written contract, subject to the same provisions as regards resignation, removal and disqualification as the other directors. If the Chief Executive Officer ceases to hold the office of Chief Executive Officer for any reason the Chief Executive Officer will immediately cease to be a Director. This clause shall also apply to the Finance Director.	Align it to the approved organisational structure which does not have the position of Finance Director. Thus, remove reference to Finance Director in Clause 85.	Clause 85: The Chief Executive Officer is, subject to the terms of any written contract, subject to the same provisions as regards resignation, removal and disqualification as the other dDirectors. If the Chief Executive Officer ceases to hold the office of Chief Executive Officer for any reason the Chief Executive Officer will immediately cease to be a Director. This clause shall also apply to any other Executive Director appointed in terms of the BBSL Constitution.

BBS LIMITED NOTICE OF 2018 ANNUAL GENERAL MEETING

Clause	Rationale for amendment	Proposed amended clause
Clause 86.2.2. The finance director of the Company	Align it to the approved organisational structure which does not have the position of Finance Director. Thus, remove reference to Finance Director in Clause 86.2.2. and make it open for the Board to choose the other Executive Director from amongst the Executive Management team on the basis of the best interests of the Company.	Clause 86.2.2. Another Executive Director appointed by the Board from amongst the Executive Management team upon recommendation by the Managing Director of the Company.
Clause 86.3. The Board shall be appointed for a tenure of up to maximum three (3) years, renewable for another maximum period of two three (3) years periods. The rotation of Directors shall be limited to three terms. The number of terms of a director may however be extended beyond the 3 terms for an additional one three (3) year period where it is in the best interest of the company. Provided that this clause shall not apply to the Managing Director and the Finance Director.	Align it to the approved organisational structure which does not have the position of Finance Director. Thus, remove reference to Finance Director in Clause 86.3.	86.3. The Board shall be appointed for a tenure of up to maximum three (3) years, renewable for another maximum period of two three (3) years periods. The rotation of Directors shall be limited to three terms. The number of terms of a director may however be extended beyond the 3 terms for an additional one three (3) year period where it is in the best interest of the company. Provided that this clause shall not apply to the Managing Director and any other Executive Director.

8. Update on the demutualisation of BBS

The Chairperson of the Board will give a verbal update on progress in respect of the demutualisation of BBS. Shareholders will be given an opportunity to comment or seek clarification.

9. Any other business

To answer any questions put forth by Shareholders in accordance with Section 97(1) of the Companies Act Cap 42:01 regarding the affairs and the business of the company.

Form of Proxy for use at the 2018 BBS Limited Annual General Meeting

I/We (shareholder's name).....

being the holder of (number of shares).....ordinary shares

hereby appoint (proxy's name).....

or failing him/her (alternative proxy's name).....

or failing him/her, the chairperson of the annual general meeting.....
as my/our proxy to participate in, and speak and vote on my/our behalf or abstain from voting on any matter at the above meeting or any adjournment thereof, in accordance with the following instructions:

Item	Ordinary resolutions	For	Against	Abstain
1.	Approval of the Annual General Meeting Minutes of 28 September 2018.			
2.	Acceptance and adoption of annual financial statements, auditor's report and the annual report			
3.	Re-appointment of independent external auditor KPMG.			
4.	a. Appointment of Mr. Geoffrey M. Bakwena to the BBSL Board.			

Item	Special resolutions	For	Against	Abstain
1.	Ratify amounts donated to charitable entities during the period under review.			
2.	To approve amount to be donated to charitable entities by Management every year.			
3.	Amendment of clauses in the BBS Limited Constitution as indicated in the Agenda			

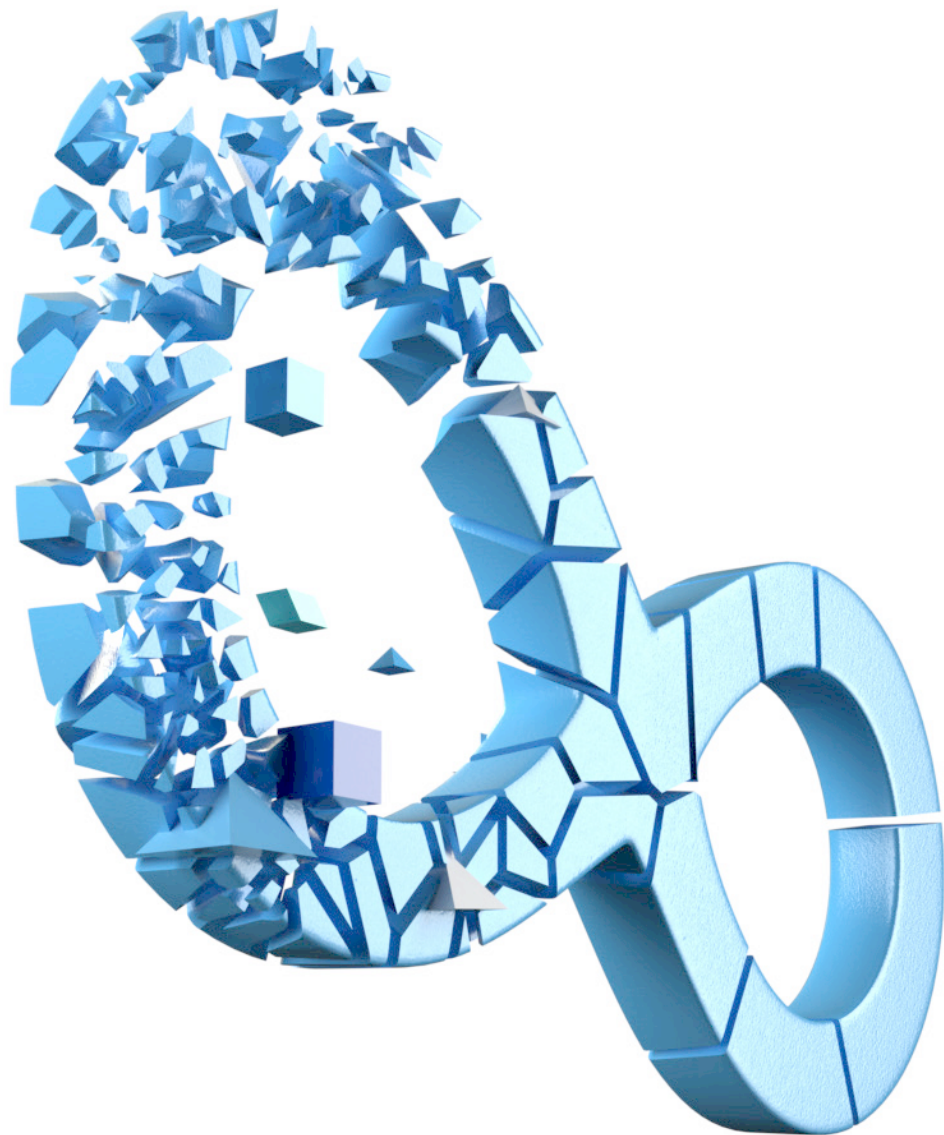
Insert X or a tick in the relevant space above according to how you wish your vote to be cast. On a poll, if you wish to cast your vote in respect of less than your entire shareholding or not to cast all your votes in the same way, insert the number of shares in respect of which you desire to vote or vote in different ways.

Signed at.....on.....2020

Signature..... Name.....

BBS Limited Annual Report

2018



**Together, Towards
Tomorrow**