Standing **Stronger Together**

2019
Annual Report

Contents

PERFORMANCE HIGHLIGHTS

for the year ended 31 December 2019

Loss for the Year

P36/m

2018: P26 million (9 months)

Gross Mortgage Loans & Advances

P3,5/b

2018: P3.3 billion

Deposits

P2.9/b

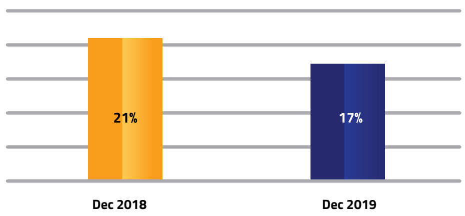
2018: P2.2 billion

Cost to Income Ratio

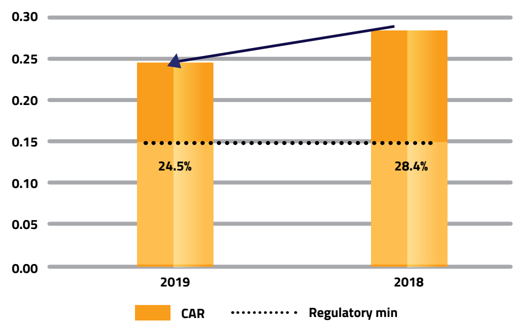
119/%

2018: 117%

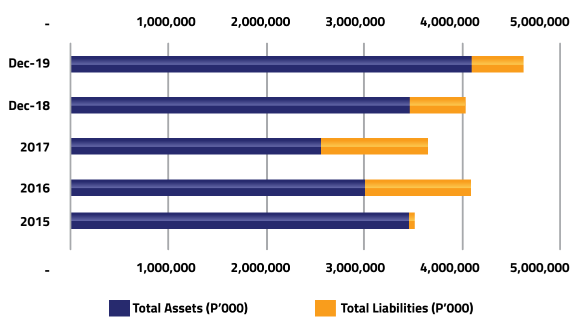
NPL as % of Gross Advances



Capital Adequacy Ratio



Assets as Coverage of Liabilities

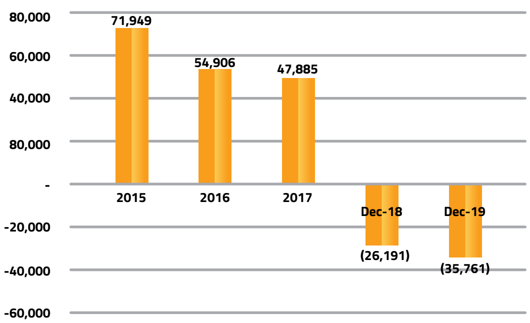


PERFORMANCE HIGHLIGHTS

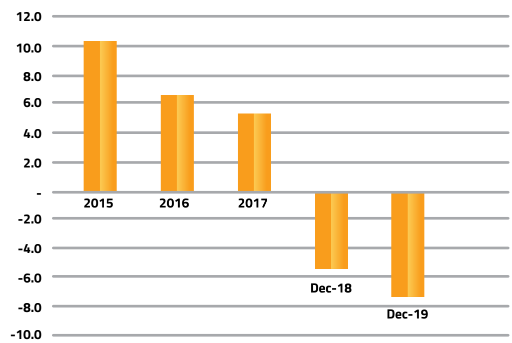
for the year ended 31 December 2019

	2015	2016	2017	Dec-18	Dec-19
	P'000	P'000	P'000	P'000	P'000
(Loss)/profit for the year	71,949	54,906	47,885	(26,191)	(35,761)
Total assets (P'000)	3,496,451	4,087,441	3,652,630	4,031,264	4,626,476
Total liabilities (P'000)	3,451,136	3,009,242	2,560,183	3,461,913	4,092,447
Earnings per share(thebe)	10.4	6.6	5.4	(5.4)	(7.3)
Dividend per share	7.6	7.0	6.6	-	-

(Loss)/Profit for the year



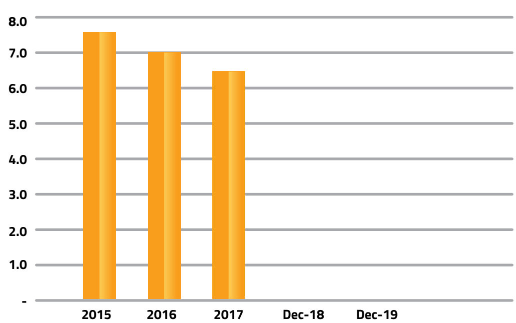
Earnings per share (thebe)



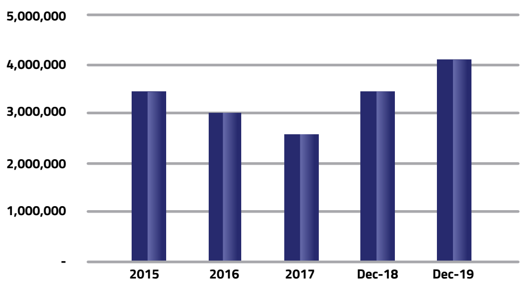
PERFORMANCE HIGHLIGHTS

for the year ended 31 December 2019

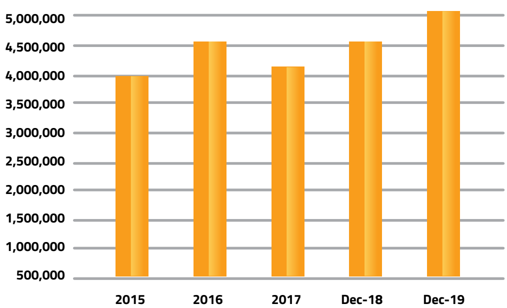
Dividend per share



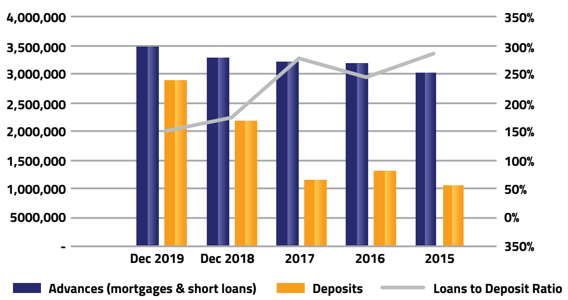
Total Liabilities (P'000)



Total Assets (P'000)



Deposits to Advance Ratio



FIVE YEAR PERFORMANCE AT A GLANCE

for the year ended 31 December 2019

Analysis of Amounts (P'000)	Dec 2019 P'000	Dec 2018 P'000	2017 P'000	2016 P'000	2015 P'000
Deposits (Ordinary, Special savings, Letsibogo, Tlamelo, Lerako. Including Paid up savings, Subscription savings and Indefinite savings for the period beginning 31Dec2018)	1,347,186	1,285,317	396,253	558,699	581,082
Fixed deposits	1,537,662	884,347	734,731	747,143	445,369
Ordinary shares	487,453	487,014	-	-	-
Indefinite period shares	-	-	1,381,328	1,350,322	1,307,830
Analysis of Account holdings					
Number of mortgage bond holders	5,632	5,655	5,772	5,780	5,723
Number of short-term loan account holders	7,195	6,439	6,824	6,939	7,020
Number of paid up savings account holders	46,033	46,114	45,923	45,142	44,227
Number of subscription savings account holders	5,848	5,968	5,787	5,825	5,684
Number of fixed-deposit account holders	114	137	149	326	130
Number of savings account holders	125,180	125,951	125,986	123,636	122,766
	190,002	**190,264**	**190,441**	**187,648**	**185,550**

VALUE ADDED STATEMENT

for the year ended 31December 2019

	31 Dec 2019 12 months P'000	31 Dec 2018 9 months P'000
Income from lending and banking activities	338,579	235,762
Cost of services	(207,066)	(129,385)
Value created by operations	131,513	106,377
Non-operating income	7,366	3,526
Operating expenditure excluding staff costs and depreciation	(82,078)	(69,018)
	56,801	40,885
Value distributed		
Employees - Salaries and benefits	75,246	55,599
	75,246	55,599
Value retained		
Retained loss	(35,761)	(26,191)
Depreciation	17,316	11,479
	(18,445)	(14,712)
Total value distributed and retained	56,801	40,887

ANNUAL GENERAL MEETING

BBS Limited Notice Of 2019 Annual General Meeting

Notice is hereby given that the second Annual General Meeting of shareholders of BBS Limited ("BBSL") will be held physically at the AVANI Hotel and Conference Centre as well as VIA ZOOM TECHNOLOGY in observance of the State Of Emergency Regulations against COVID-19 on Wednesday 30th December 2020 starting at 09h30am or any adjournment or postponement thereof, to: (i) consider and, if deemed fit, pass, with or without modification, the ordinary resolutions set out below, and (ii) deal with such other business as may be dealt with at the meeting.

"I would like to thank Shareholders and other parties interested in the well-being of BBS Limited for their continued support of our efforts to transform the business despite the challenges we have encountered."

Pelani D. Siwawa-Ndai | Board Chairperson

Annual General Meeting *[continued]*

To attend the AGM, BBSL Shareholders should access the link **"BBSL 2019 Annual General Meeting Registration"** in the BBSL website for verification purposes. Upon successful verification during registration, an email with the AGM credentials will be sent to the Shareholder. On the day of the meeting, Shareholders should start logging in from 08h15am.

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.

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 23 July 2020.

"**Resolved that** the Minutes of the BBS Annual General Meeting held on 23 July 2020 be and are hereby approved".

3. Ordinary Resolution No.2

To accept and adopt the financial statements.

"Resolved that the financial statements of the Company, for the year ended 31 December 2019, be and are hereby accepted and adopted."

Additional information in respect of Ordinary resolution number 2

The abridged Financial Results for the year ended 31 December 2019 are available on our website at **www.bbs.co.bw**. They have also been emailed to Shareholders. The annual report will be available on the BBSL website in the next few days. It will be emailed to Shareholders.

4. Ordinary Resolution No.3

Appointment of external auditor

"Resolved that (….)* be and is hereby appointed external independent auditor for BBS Limited until the conclusion of the next annual general meeting in accordance with section 191(1) of the Companies Act.

* The name of the auditor will be announced at the AGM.

5. Ordinary Resolution No.4

To appoint the following individuals to the BBS Limited Board as an additional Director in accordance with Clause 88.1 of the Constitution.

a. Mrs. Elaina Gonsalves* - Non Executive Director

"**Resolved that** Mrs. Elaina Gonsalves be and is hereby appointed to the BBS Limited Board of Directors."

*Brief CV in respect of the nominee Director, including the nature of her expertise, is provided with this Notice.

6. 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.

7. 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.

Chairperson to close the meeting

NOTES:

1. Attendance and voting by Shareholders or Proxies

A BBSL Shareholder is entitled to attend and vote at the Annual General Meeting. Alternatively, a BBSL Shareholder may appoint a proxy to attend, participate in and vote at the meeting in the place of the Shareholder. A proxy need not be a shareholder of the company.

Voting on the ordinary and special resolutions will in the first instance be decided by voice or show or hands, unless a poll is demanded pursuant to Section 67.1 of the BBS Limited Constitution.

If voting is by show of hands, every Shareholder or Proxy present will have one vote, irrespective of the number of shares held in the company by the Shareholder. On a poll, every Shareholder or Proxy present shall have one vote for every share held in the company by the Shareholder.

2. Proof of identification

All persons, including Shareholders and Proxies, will be required to provide reasonably satisfactory identification before attending or participating in the meeting. Since this will be a virtual meeting, shareholders will be required to log in using their account or National Identity Card numbers.

3. Form of Proxy

This Notice of the Annual General Meeting includes

Annual General Meeting *[continued]*

the form of proxy with additional notes and instructions which is attached to this Notice of the Annual General Meeting.

As stated above, the Form of Proxy or other authority appointing the Proxy must be delivered to BBS Limited, Plot 13108-12, Corner of Lemmenyane and Segoditshane Roads, Broadhurst, Gaborone; posted (at the risk of the shareholder) to BBS Limited at PO Box 40029, Gaborone; or emailed to BBS Limited at bbs@bbs.co.bw and must be duly received by the Company at least 48 hours before the annual general meeting.

By order of the Board

Sipho H. Showa
Company Secretary
09 December 2020

Form of Proxy for use at the 2019 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 23 July 2020.			
2.	Acceptance and adoption of annual financial statements, auditor's report and the annual report			
3.	Appointment of an independent external auditor.			
4.	Appointment of Mrs. Elaina Gonsalves to the BBSL Board.			

BOARD CHAIRPERSON'S STATEMENT

Pelani D. Siwawa-Ndai
Board Chairperson

Introduction

I would like to start off with encouraging news that the audit for the year ended 31 December 2019 has been concluded. This means that the BBS Limited audit cycle has been normalised. Preparations to audit financial statements for 2020 are underway.

Returning to the 2019 audit, I am sure you will join me, other colleagues on the Board and Management, in applauding its conclusion given the challenges BBS Limited encountered which are well documented in previous Annual Reports. They need no repeating here save to reassure you that the information technology system challenges we experienced will not arise in the future.

> "The success we have had with the 2019 audit means that BBS Limited Shareholders can now resume trading in their shares following the lifting of the suspension by Botswana Stock Exchange Limited."

Message from the Chairperson *[continued]*

During the year, BBS Limited experienced an increase in non-performing loans as some of our customers defaulted on their loan repayments due to loss of income and/or loss of jobs largely associated with mine closures and retrenchment by some companies. Thus, the non-performing loans ratio increased from 9% to 10% as at the end of December 2019.

Overview of performance

BBS Limited's performance during the period under review was as follows:

- Total balance sheet increased by 15% from P4.031 billion recorded as at December 2018 to P4.626 billion as at end of December 2019.
- Mortgage loans and advances rose from P3.197 billion to P3.401 billion, representing an increase of 6%.
- Total savings and deposits grew by 33% from a balance of P2.170 billion as at 31 December 2018 to P2.885 billion as at 31 December 2019.
- The Company recorded a loss of P35.761 million for the 12-month period to December 2019 compared to a loss of P26.191 million which was recorded for the 9-month period between April 2018 and December 2018.
- BBS Limited continues to maintain a strong capital base; as at 31 December 2019 the capital adequacy ratio stood at 24.50%.
- The cost-to-income ratio for the period was recorded at 116%. This is very high relative to financial industry norms. However, it didn't come as a surprise to us as we knew that during the transition period, we would experience an increase in costs as we prepare our environment for operating under a new model as a commercial bank.

The observed loss was primarily due to the change in the capital structure as some amounts which used to be classified as "equity" are regarded as liabilities and have started earning interest as opposed to getting a distribution from profits.

Furthermore, implementation of IFRS 9, an accounting standard, requires BBS Limited to make loss provisions for accounts even before they default. The impairment method, that is, expected credit loss as opposed to incurred credit losses, that has been adopted is now forward looking.

During the year, BBS Limited experienced an increase in non-performing loans as some of our customers defaulted on their loan repayments due to loss of income and/or loss of jobs largely associated with mine closures and retrenchment by some companies. Thus, the non-performing loans ratio increased from 9% to 10% as at the end of December 2019.

Banking licence application

Following the conclusion of the 2019 audit, BBS Limited will re-submit its application for a commercial banking licence early 2021.

The application record has been updated accordingly and all things being equal, we expect to have received a response from the authorities by the second half of 2021. In the meantime, we are readying ourselves to operate commercially by putting in place all the necessary operational and human capital requirements.

Trading on BBSL Shares

The success we have had with the 2019 audit means that BBS Limited Shareholders can trade in their shares following the lifting of the suspension by Botswana Stock Exchange Limited. Once again, we regret the inconvenience caused to Shareholders by the non-tradability of their shares during the period of audit gaps remediation.

New Board Member

At the 2018 Annual General Meeting held on 23rd July 2020, we welcomed a new Board Member, Mr. Geoffrey Bakwena, who is very experienced in matters of finance and we are confident that he will add value to the BBS Limited Board.

Conclusion

I would like to thank Shareholders and other parties interested in the well-being of BBS Limited for their continued support of our efforts to transform the business despite the challenges we have encountered. With the challenges behind us now, we are on course to attain our goal of commercialising BBS Limited.

Pelani D. Siwawa-Ndai
Board Chairperson

MANAGING DIRECTOR'S STATEMENT

Pius K. Molefe
Managing Director

Introduction

As the Chairperson Ms. Siwawa-Ndai notes in her report, the 2019 audit has been concluded. At the outset, I would like to thank BBS Limited Shareholders for their unremitting support during the time that we were working on audits that were behind schedule.

Despite the inconvenience that this caused to some Shareholders, especially those that could not trade in their shares, they remained patient and supportive.

> “Our strategy for the future remains on course, which is to commercialise the operations of BBS Limited. As Ms. Siwawa-Ndai notes, we are now back on track with filing the banking licence application early 2021.”

Managing Director's Statement *[continued]*

Despite the inconvenience that this caused to some Shareholders, especially those that could not trade in their shares, they remained patient and supportive. I would like to thank the Board for its support during this time and BBS Limited employees who worked very hard to right the ship, as it were.

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Results

As you would be noted from Ms. Siwawa-Ndai's report, we recorded a loss of P35.761 million during the months under review compared to a loss of P26.191 million for the 9-month period to December 2018. Despite this loss, other performance indicators show that BBS Limited is still a strong business that is highly regarded in the market.

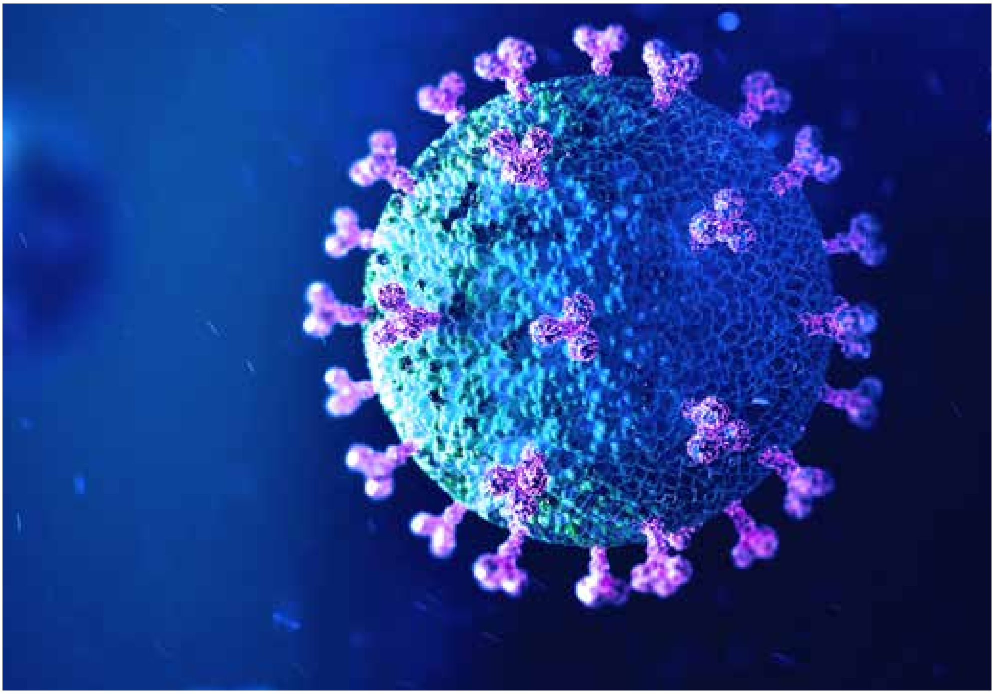
For instance, total savings and deposits grew by 33% from a balance of P2.170 billion as at 31 December 2018 to P2.885 billion as at 31 December 2019. Further, BBS Limited's capital base remains strong as signalled by the capital adequacy ratio which stood at 24.50% as at December 2019.

Strategy going forward

Our strategy for the future remains on course, which is to commercialise the operations of BBS Limited. As Ms. Siwawa-Ndai notes, we are now back on track with filing the banking licence application early 2021.

Impact of COVID-19

Nonetheless, before the conclusion of the 2019 audit, we were affected by the global pandemic COVID-19 but did our very best to stave off its negative impact on our business. It tested our business reliance



processes to the hilt and I am convinced that we have a robust framework to withstand such risks.

Through our operational risk management framework, we took several reasoned steps to protect the business from the shocks of COVID-19. One of them was reducing mortgage funding limits for various geographical areas.

It is subject to review as the fortunes of the business and the economy improve. We also activated observation of COVID-19 protocols in the workplace for staff and clients to mitigate any possible infections.

Conclusion

Once again, I would like to reiterate my thanks to you for your support, and to our Board as well. I look forward to giving you another update in the 2020 Annual Report.

Pius K. Molefe
Managing Director

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 BBS 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.

Corporate Governance *[continued]*

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.

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
- Mr. Pius K. Molefe, Managing Director
- Mr. James M. Kamyuka
- Mr. Kgalalelo N. Monthe
- Mr. Michael M. Tlhagwane
- Mr. Richard Molosiwa
- Mr. Geoffrey M. Bakwena (Appointed at the Board at the 2018 Annual General Meeting held on 23 July 2020).

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 January 2019 to December 2019 is indicated below.

BBS Limited Board attendance

	BBS Board Meeting	Tender Committee Meeting	Human Resources and Remuneration Committee Meeting	Finance and Audit Committee Meeting	Demutualisation Committee Meeting
Pelani D. Siwawa-Ndai (Chairperson)	8				
Pius K. Molefe (Managing Director)	8	3	4	5	3
James M. Kamyuka	8	3		5	3
Richard Molosiwa	8	3	4		3
Michael M. Tlhagwane	8		4	5	3
Kgalalelo N. Monthe	8	3	4	4	3

Corporate Governance *[continued]*

Finance and Audit Committee

The Finance and Audit Committee is chaired by Mr. Michael M. Tlhagwane. The other Committee Members are Mr. James Kamyuka and Mr. Geoffrey M. Bakwena.

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 will all applicable legal requirements and accounting standards.

Tender Committee

The Tender Committee is chaired by Mr. James Kamyuka. Its other Members are Mr. Geoffrey M. Bakwena, 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 Society 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. Kgalalelo Monthe, Mr. Michael M. Tlhagwane 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 Tlhagwane and Mr. James Kamyuka.

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

Resignations and re-appointments

Mr. Geoffrey M. Bakwena was appointed to the Board at the Annual General Meeting that was held on Thursday 23 July 2020.

Director's remuneration-

BBS Board Limited 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 P0.844 million was paid towards Board fees and related expenses compared to P1.100 million 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 BBS 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.

BOARD MEMBERS

Ms Pelani D. Siwawa-Ndai
Chairperson

Mr Pius K. Molefe
Managing Director

Mr Michael M. Tlhagwane
Director

Mr James M. Kamyuka
Director

Mr Richard Molosiwa
Director

Mr Kgalalelo N. Monthe
Director

Mr Geoffrey M. Bakwena
Director

EXECUTIVE MANAGEMENT

Mr Pius K. Molefe
Managing Director

Mr Sipho H. Showa
Head of Marketing & Communication/Company Secretary

Mrs Pearl C. Ramokate-Nkoane
Head of Finance

Mrs Susan L. Ntsima
Head of Credit

Mrs Julia S. Ntshole
Head of Risk

Mrs Punah G. Moyo
Head of Projects & Strategy

Ms Thelma O'Reilly
Head of Banking

Ms Palesa A. Semele
Head of Internal Audit

Mr Jabulani M. Mangole
Head of Operations

Mr Washington Chidiwa
Head of Information Technology(A)

Annual Financial Statements

Contents

GENERAL INFORMATION

Country of incorporation and domicile	Botswana
Nature of business and principal activities	Property finance and the provision of financial services
Directors	Ms Pelani D. Siwawa-Ndai
	Mr Pius K. Molefe
	Mr Michael M. Tlhagwane
	Mr James M. Kamyuka
	Mr Kgalalelo N. Monthe
	Mr Richard Molosiwa
	Mr Geoffrey M Bakwena - Appointed 23 July 2020
Registered office	Plot 13108/12,
	Corner Of Lemmenyane Drive and Segoditshane Way, Broadhurst, Gaborone, Botswana
Business address	Plot 13108/12,
	Corner Of Lemmenyane Drive and Segoditshane Way, Broadhurst, Gaborone, Botswana
Postal address	P.O. Box 40029
	Gaborone, Botswana
Bankers	African Banking Corporation of Botswana Limited
	Absa Bank of Botswana Limited
	Standard Chartered Bank Botswana Limited
	Stanbic Bank Botswana Limited
	First National Bank Botswana Limited
	Bank Gaborone Limited
Auditors	KPMG
	Plot 67977, Off Tlokweng Road
	Fairgrounds Office Park
	P.O Box 1519
	Gaborone
Secretary	Sipho Hector Showa
Company registration number	BW00001057162

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are required in terms of the Companies Act of Botswana to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and in compliance with the Building Societies Act (Cap42:03). The External Auditor is engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

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

The External Auditor is responsible for independently auditing and reporting on the Company's financial statements. The financial statements have been examined by the Company's External Auditor and their report is presented on pages 39 to 48.

The financial statements set out on page 49 to 139, which have been prepared on the going concern basis, were approved by the Board Of Directors on 15 December 2020 and were signed on their behalf by:

Approval of financial statements

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Ms Pelani D. Siwawa-Ndai	Mr Michael M. Tlhagwane
Board Chairperson	**Chairperson-Finance and Audit Committee**

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the financial statements of BBS Limited ("the Company") for the year ended 31 December 2019.

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).

1. Business activities

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

2. 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 comparative financial statements, therefore cover a period of 9 months ended 31 December 2018.

3. Financial results and position

The Company's financial results and position are reflected in the financial statements set out on pages 49 to 139. The Company realised a 26% increase in operating income from P110 million for the period ended 31 December 2018 to P139 million for the year ended 31 December 2019. A loss of P36 million was realised during the year ended 31 December 2019 compared to a loss of P26 million for the period ended 31 December 2018.

4. Stated capital

The issued share capital of the Company comprised of 487,453 ordinary shares at the end of the year. The detail on shareholding is presented on note 40 of this report.

5. Directors' interests in shares

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

6. Dividends

No dividends were declared during the current or prior period.

DIRECTORS' REPORT (CONTINUED)

7. Directorate

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

Directors	Office	Designation	Nationality	Changes
Ms Pelani D. Siwawa-Ndai	Chairperson	Non-executive	Motswana	
Mr Pius K. Molefe	Managing Director	Executive	Motswana	
Mr Michael M. Tlhagwane	Director	Non-executive	Motswana	
Mr James M. Kamyuka	Director	Non-executive	Motswana	
Mr Kgalalelo N. Monthe	Director	Non-executive	Motswana	
Mr Richard Molosiwa	Director	Non-executive	Motswana	
Mr Geoffrey M Bakwena	Director	Non-executive	Motswana	Appointed, 23 July 2020

8. Delay in issuance of BBS Limited financial statements

The Company's audited financial statements for the year ended 31 December 2019 were due for release on 31 March 2020. However, the timeline was not met because of post implementation challenges experienced with the Company's core banking system. Given the complex nature of the upgrade, it took longer than expected to resolve the post implementation issues including those that had an impact on the financial statements of the company.

While addressing the post implementation issues, the Temenos T24 system experienced bugs which affected some accounts. During the year 2019, Management performed an exercise to quantify the level of errors in the financial statements. The exercise required extensive investigations and effort to ensure that significant matters were adequately addressed and to eliminate chances of inaccurate financial reporting. The corrections were effected during 2019.

Management addressed the challenges through manual reconciliation processes which resulted in the auditors using the same audit approach as for the 2018 audit to mitigate the increased risk of error because of the manual processes. They required more effort than initially planned due to large volumes of accounts which needed to be tested. The significant challenges that were addressed are explained in detail under Note 8 of the financial statements. In addition,as part of its transitioning journey, the Company changed its financial year from 31 March to 31 December. The December 2019 financial statements are the second following the financial year end change and the comparative period for December 2018 is for a nine months period. The delay in publishing the December 2019 financial statements was mainly as a result of the delayed financials for December 2018.

Compliance with the Companies Act

Ex parte case

Following challenges that impeded the completion the 2018 audit within the stipulated period, and consequently that of the subsequent financial year 2019, BBS Limited ("BBSL") filed an ex parte application with the High Court of the Republic of Botswana ("High Court") to be able to file the audited sets of financials out of time.
The High Court agreed with BBSL granting it a rule nisi which upon not being opposed by the returnable date of 23 September 2020, it was made into an Order of Court. Therefore, BBSL was granted an extension to have submitted its audited financial statements for 2019 by 31 December 2020.

Details of the ex parte application are captured under Note 38 of the financial statements.

DIRECTORS' REPORT (CONTINUED)

Trading of shares

The trading of the BBS Limited shares was halted on the Serala 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 and the suspension remained in force since the 2019 financial statement were also late. The trading of the shares resumed on 11 December 2020, following the publication of the unaudited preliminary results on the Botswana Stock Exchange.

Banking license application

The Banking license application was submitted to Bank of Botswana (BoB) in May 2019. Due to delays in the finalisation of the BBSL Annual Financial Statements (AFS) for the period ended December 2018 the application was voluntarily withdrawn in October 2019. The application will be updated and resubmitted once the financial statements for December 2019 have been published.

Events occurring after the reporting date

COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared the COVID-19 virus a pandemic due to its rapid spread across the globe. The President of the Republic of Botswana Dr. Mokgweetsi E.K. Masisi declared a state of emergency for 6 months and a national lock down for the whole of Botswana from 02 April 2020 to 22 May 2020 in line with similar measures instituted across the world. The impact of both the pandemic and the instituted measures have had an adverse impact on the global and local economies as well.

The COVID-19 pandemic occurred subsequent to the 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 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 uncertainties relating to the COVID-19 do not result in any material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of BBS Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BBS Limited ("the company") set out on pages 49 to 139 which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, Accounting Policies and Notes to the Financial Statements.

In our opinion, these financial statements give a true and fair view of the financial position of BBS Limited as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standardsand in compliance with the requirements of 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

1) Temenos (T24) banking system upgrade

Refer to the following notes to the financial statements:

- Note 6 Short-term loans and advances to customers
- Note 8 Mortgage loans and advances to customers.

Key audit matter	How the matter was addressed in our audit
The upgrade of the core banking system resulted in inaccurate reporting of short-term and mortgage loans and advances to customers because of several challenges described in note 8 to the financial statements. The post upgrade challenges remained unresolved during the current financial year and included among others missing bills, duplicated bills and interest calculation errors. Consequently, management performed manual processes during the year to correct the effect of these inaccuracies. Similar to the previous financial period, the post system upgrade challenges had a significant effect on our audit strategy relating to: • inability to rely on the system application controls. • a change in our initial audit approach. • an increased significant risk of material misstatement on the accuracy of short-term and mortgage loans and advances to customers. 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.	Our procedures included: • 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. • Tested a sample of short-term and mortgage loans and advances from the population identified by management as having no issues and performed an independent amortisation of these, taking into account the relevant inputs. This was done to assess if other mortgage loans and advances were affected by the system challenges or not. • 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 amortisation calculation for comparison with the manual amortisation undertaken by management. This was to confirm the accuracy of the adjustments made by management to correct system inaccuracies. • 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. • Evaluated the adequacy of the financial statement disclosures with respect to this matter.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Refer to the following notes to the financial statements:
Note 1.1 Key sources of estimation uncertainties
Note 1.8 Financial instruments
Note 6 Short-term loans and advances to customers
Note 8 Mortgage loans and advances to customers
Note 25 on Expected credit losses
Note 42 Financial instruments and risk management on credit risk

Key audit matter	How the matter was addressed in our audit
The Company's core business involves providing short term and 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 BWP3.5 billion and short-term loans and advances amount to BWP 62 million. The related expected credit losses (ECL) for the year amounts to BWP 103 million and BWP 1.3 million, respectively. The ECL model applied to measure impairment requires management to exercise significant judgement in the determination of ECL. Management calculates the ECL using statistical models and have engaged experts to assist with this process. The following inputs to these models require significant management judgement: • Determination of significant increase in credit risk (SICR).	Our procedures included: • Evaluated the competence and capabilities of experts engaged by management to develop IFRS 9 compliant statistical models and to assist with the calculation of ECL. 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. • 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. • Evaluated the design and implementation and the operating effectiveness of controls relating

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INDEPENDENT AUDITOR'S REPORT (continued)

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

Refer to the following notes to the financial statements:
Note 1.1 Key sources of estimation uncertainties
Note 1.8 Financial instruments
Note 6 Short-term loans and advances to customers
Note 8 Mortgage loans and advances to customers
Note 25 on Expected credit losses
Note 42 Financial instruments and risk management on credit risk

Key audit matter	How the matter was addressed in our audit
• 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). 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. • the fair value of collateral considered in the determination of Expected credit losses at the reporting date. 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 long term mortgage loans and advances to customers was considered to be a key audit matter.	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: - 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. - 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 PD, EAD and LGD by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions.

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INDEPENDENT AUDITOR'S REPORT (continued)

<table>
<tr><td colspan="2">2) Impairment of Short-term loans and advances to customers and Mortgage loans and advances to customers

Refer to the following notes to the financial statements:
Note 1.1 Key sources of estimation uncertainties
Note 1.8 Financial instruments
Note 6 Short-term loans and advances to customers
Note 8 Mortgage loans and advances to customers
Note 25 on Expected credit losses
Note 42 Financial instruments and risk management on credit risk</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td></td><td>-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.
-Evaluated the appropriateness of management's additional post model overlays by independently assessing the reasonability of the assumptions and judgements made by management.
-Evaluated financial effects of the subsequent events due to the COVID-19 pandemic especially on the key elements applied in the determination of the expected credit losses and the impact on collateral values.

• We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 9: Financial Instruments and IFRS 7: Financial Instruments disclosures.</td></tr>
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INDEPENDENT AUDITOR'S REPORT (continued)

3) Going concern assessment and impact of COVID-19

Refer to the following notes in the financial statements:
- Note 34 Events after the reporting period
- Note 35 Going concern

Key audit matter	How the matter was addressed in our audit
The Company incurred a net loss for the year ended 31 December 2019 of P36 million (2018: loss of P26 million). 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. In addition, subsequent to the reporting date there has been an oubreak of a Coronavirus (COVID-19) pandemic 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 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 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 into a commercial bank is dependent on obtaining a banking license which will enable the company to introduce a wide range of products and services.	We critically evaluated management's assessment of the going concern assumption as follows: • Assessed the reliability of the forecasts by comparing the latest forecasts against initial budgets and historical performance. • Evaluated the assumptions in respect of available projected future forecasts made by management for reasonableness based on the current market conditions and developments within the company. • Inspected correspondence with financial institutions, financiers and other relevant parties for any matters that may have an impact on the ability of the company to continue as a going concern . • 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. • 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

3) Going concern assessment and impact of COVID-19 Refer to the following notes in the financial statements: • Note 34 Events after the reporting period • Note 35 Going concern	
Key audit matter	**How the matter was addressed in our audit**
The Company's latest financial records and future projections indicate the company will remain solvent and liquid. Considering the timing of the submission of the banking license 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 indicate declining key ratios, however, these are still within the regulatory thresholds. 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.	• 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. • 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Other information

The directors are responsible for the other information. The other information comprises the general information, Directors' Responsibility Statement and the Director's Report, but 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 express 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, 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 financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of 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

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INDEPENDENT AUDITOR'S REPORT (continued)

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 the 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on other legal and regulatory requirements

(a)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.

(b)As detailed in note 38 to the financial statements, the company has not complied with section 205 (1) as a result of challenges that impeded the completion of the December 2018 audit within the stipulated period, and consequently that of the subsequent financial year 2019. The company filed an ex parte application with the High court of the republic of Botswana to be able to file the audited sets of the financials out of time. The High court agreed with BBSL granting it a rule nisi which upon not being opposed by the reportable date of 23 September 2020, it was made into an order of court. Therefore, BBSL was granted an extension to have submitted its audited financial statements for 2019 by 31 December 2020.

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Certified Auditors
Practicing Member: Gosego Motsamai (20030026) Certified Auditor of Public Interest Entity
BAOA Certificate Number CAP 0035 2019

Date: 18 December 2020 Gaborone

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note(s)	2018 P '000	2019 P '000
Assets			
Cash and cash equivalents	3	51,819	79,530
Investments with banks	4	936,441	514,365
Other assets	5	23,883	29,118
Short-term loans and advances to customers	6	60,862	77,297
Properties-in-possession	7	8,691	9,190
Mortgage loans and advances to customers	8	3,401,231	3,197,561
Right-of-use assets	9	19,886	-
Intangible assets	10	20,652	26,433
Property and equipment	11	103,011	97,770
Total Assets		**4,626,476**	**4,031,264**
Liabilities			
Customers' savings and fixed deposit accounts	12	2,467,791	1,764,252
Paid up and subscription savings	13	417,057	405,412
Withholding tax	14	1,619	827
Borrowings	15	993,201	1,127,033
Debentures	16	102,354	102,205
Lease liabilities	17	21,512	-
Other liabilities	18	88,913	62,184
Total Liabilities		**4,092,447**	**3,461,913**
Equity			
Stated capital - Ordinary shares	19	487,453	487,014
Retained loss		(66,861)	(31,100)
Statutory reserves	20	113,437	113,437
Total equity		**534,029**	569,351
Total Equity and Liabilities		**4,626,476**	**4,031,264**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	(12 months) 31 December 2019 P '000	(9 months) 31 December 2018 P '000
Interest income	21	318,502	220,031
Interest expense	22	(206,001)	(128,567)
Net interest income		**112,501**	**91,464**
Fee and commission income	23	20,077	15,731
Fee and comssion expense	23	(1,065)	(818)
Net fee and commssion income		**19,012**	**14,913**
Revenue		**131,513**	**106,377**
Other operating income	24	7,366	3,526
Operating income		**138,879**	**109,903**
Expected credit losses	25	(22,496)	(14,531)
Personnel expenses	26	(75,246)	(55,599)
Depreciation and amortisation	27	(17,316)	(11,479)
Operating lease expenses	28	-	(2,238)
Other expenses	29	(59,582)	(52,247)
Total expenses		**(174,640)**	**(136,094)**
Loss for the year/period		**(35,761)**	**(26,191)**
Other comprehensive income		-	-
Total comprehensive loss for the year/period		**(35,761)**	**(26,191)**
Earnings per share			
Per share information			
Basic and diluted loss per share (thebe)	31	(7.30)	(5.40)

STATEMENT OF CHANGES IN EQUITY

	Ordinary shares P '000	Indefinite period shares P '000	Statutory reserve P '000	General market risk reserve P '000	Retained income P '000	Total equity P '000
Balance at 01 April 2018	**-**	**945,716**	**124,462**	**64,000**	**23,412**	**1,157,590**
Loss for the period (9 months)	-	-	-	-	(26,191)	(26,191)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive Loss for the period	**-**	**-**	**-**	**-**	**(26,191)**	**(26,191)**
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
IFRS 9 transitional adjustment on initial application at 01 April 2018	-	-	-	-	(28,321)	(28,321)
Transfer from general reserve	-	64,000	-	(64,000)	-	-
Transfer from statutory reserve	-	10,266	(10,266)	-	-	-
Transfer to ordinary shares	487,014	(487,014)	-	-	-	-
Balance at 01 January 2019	**487,014**	**-**	**113,437**	**-**	**(31,100)**	**569,351**
Loss for the year	-	-	-	-	(35,761)	(35,761)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive Loss for the year	**-**	**-**	**-**	**-**	**(35,761)**	**(35,761)**
Issue of shares	439	-	-	-	-	439
Balance at 31 December 2019	**487,453**	**-**	**113,437**	**-**	**(66,861)**	**534,029**
Note(s)	19	19	20	20		

Refer to note 19 of this report for details on the Company's reserves.

STATEMENT OF CASH FLOWS

	Note(s)	2019 P '000	2018 P '000
Cash flows from operating activities			
Interest receipts		307,519	225,545
Commission receipts		20,077	15,731
Interest payments		(176,872)	(117,576)
Commission payments		(1,065)	(818)
Other operating income		5,628	3,526
Cash payments to employees and suppliers		(132,805)	(114,331)
Net cash received from operating activities before changes in working capital		22,482	12,077
Movement in:			
Short-term loans and advances		16,783	8,707
Mortgage loans and advances		(222,774)	(138,478)
Properties in possession (net)		499	4,510
Other assets		5,592	(7,628)
Customers' savings and fixed deposits accounts		703,539	(64,300)
Paid up and subscription savings*		12,084	-
Withholding tax*		792	-
Other liabilities*		(5,162)	-
Net cash from/(used in) operating activities		**533,835**	**(185,112)**
Cash flows from investing activities			
Purchase of property and equipment	11	(12,575)	(9,740)
Sale of property and equipment	11	209	-
Purchase of intangible assets	10	(1,812)	-
New placement of investments with banks		(1,719,400)	(1,035,897)
Maturities of investments with banks		1,307,726	1,293,937
Net cash (used in)/generated from investing activities		**(425,852)**	**248,300**
Cash flows from financing activities			
Reserves - cash distribution to members	20	-	(759)
Proceeds from borrowings	43	30,000	120,000
Repayment of borrowings	43	(163,832)	(170,590)
Payment on lease liabilities		(1,863)	-
Dividends paid		-	(13,317)
Net cash used in financing activities		**(135,695)**	**(64,666)**
Total cash movement for the year/period		**(27,712)**	**(1,478)**
Cash at the beginning of the year/period		79,531	81,008
Total cash at end of the year/period	3	**51,819**	**79,530**

*As per the IAS 1-Presentation of Financial Statements the Company has revised the presentation of withholding tax and other liabilities which were historically reported as part of cash payments to employees and the presentation of suppliers and paid up subscription savings which were previously reported as part of customer's savings and fixed deposits accounts. With effect from the current financial year, these balances are reported separately. The comparative information for the 2019 financial year has not been revised to align to the improved presentation. This reclassification does not impact on the cashflow.

ACCOUNTING POLICIES

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 15 December 2020.

The financial statements cover a period of 12 months ended 31 December 2019.

1.1. Basis of preparation

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

Comparatives

Comparative financial statements/disclosures cover a 9 months period ended 31 December 2018.

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards, the Companies Act (42:01) and in the manner required by 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 16: Leases have been applied. Changes to significant accounting policies are described in accounting policy note 1.5.

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 are assumptions are reviewed on an ongoing basis.

Going concern

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

ACCOUNTING POLICIES (continued)

1.1. Basis of preparation (continued)

Going concern (continued)

judgements involved in the assessment of whether the going concern assumption remains appropriate as well as the assumptions made regarding the duration and the anticipated impact of the COVID-19 pandemic on the company. Uncertainities around the timing of the submission of the banking license application and the impact of the continued losses and declining key issues, is also an area of significant judgement.

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

Expected credit losses

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

Impairment of financial instruments: determining inputs into the Expected Credit Losses (ECL) measurement model, including incorporation of forward-looking information.

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 refer to accounting policy note 1.8 and Note 42 - Financial instruments and risk management.

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. Refer to note 11.

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial asses. 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

ACCOUNTING POLICIES (continued)

1.1. Basis of preparation (continued)

Collateral valuation(continued)

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. Refer to note 42.

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. Refer to note 5.

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. Refer to note 27.

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 period. Refer to note 27.

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.

1.2. Interest

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

ACCOUNTING POLICIES (continued)

1.2. Interest (continued)

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 in the previous period.

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.

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.

1.3. 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

ACCOUNTING POLICIES (continued)

1.3. Fees and commission (continued)

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.

1.4. 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.

1.5. Leases-Applicable after 01 January 2019

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

Company as lessee

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

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

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

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

ACCOUNTING POLICIES (continued)

1.5. Leases-Applicable after 01 January 2019 (continued)

Lease liability (continued)

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

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

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

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

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

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

Right-of-use assets

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

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;

ACCOUNTING POLICIES (continued)

1.5. Leases-Applicable after 01 January 2019 (continued)

Right-of-use assets (continued)

- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

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

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

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

Item	Depreciation method	Average useful life
Land and Leasehold property	Straight line	50 years or remaining useful life

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

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

Company as 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.

1.6 Leases - Applicable before 01 January 2019

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.

ACCOUNTING POLICIES (continued)

1.6 Leases – Applicable before 01 January 2019 (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.

Operating leases - 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.

Operating leases – 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.

1.7. 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) because it is still operating the business of a building society.

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.

1.8. Financial instruments

The Company classifies its financial assets at amortised cost:

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

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI) (continued)

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;
- 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

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI) (continued)

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.

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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

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).

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.

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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Modified financial instruments (continued)

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

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.

Offsetting of financial assets and financial liabilities

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

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

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

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.

Mortgage loans and advances to customers

The Company holds mortgage loans and advances to customers to collect contractual cashflows. These are initially recorded at the fair value of the consideration paid and are subsequently measured at amortised cost.

Short-term loans and advances to customers

Short-term loans and advances to customers are initially recorded at the fair value of the amount disbursed to the customers and subsequently measured at amortised cost.

Other financial liabilities

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

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

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

Collateral repossessed

The 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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Expected credit losses (continued)

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.

The below table 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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Expected credit losses (continued)

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 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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Recognition (continued)

12 months expected credit losses (Stage 1) (continued)

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:

- 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 is indicative of significant increase in credit risk since initial recognition. SICR can be established based on qualitative triggers or a quantitative assessment. Currently, no measures have been developed to quantitatively measure SICR. In future the Company will use the movement in the PD.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Recognition (continued)

Significant increase in credit risk (Stage 2) (continued)

This is because the underlying supporting information required to do so is not reasonability available without undue cost. Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

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

Credit impaired (or defaulted) exposures (Stage 3)

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

Evidence that a financial asset is credit impaired includes observable data about the following events:

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

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

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

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Recognition (continued)

Credit impaired (or defaulted) exposures (Stage 3) (continued)

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.

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
High 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 R5 represents normal, healthy exposures while R6 to R9 represent high-risk of defaulted borrowers.

For individually significant financial assets within Stage 3, Global Credit Risk Management Committee will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the 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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Expert credit judgement (continued)

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.

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).

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

Forborne loans

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

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Forborne loans (continued)

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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Improvement in credit risk or curing (continued)

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 are reclassified to stage 1. A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a period of 3 months is met.

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

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

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.

ACCOUNTING POLICIES (continued)

1.8. Financial instruments (continued)

Fair value of financial instruments (continued)

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.

1.9. Properties in possession

Properties in possession consist of residential and commercial properties repossessed from defaulting mortgage loan bond holders. Such properties are held with the express intention to sell in the short to medium term and are recorded at the lower of cost of repossession and net realisable value. 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.

1.10. Property and equipment

Recognition and measurement

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

ACCOUNTING POLICIES (continued)

1.10. Property and equipment (continued)

Subsequent cost (continued)

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 of items of property and equipment have been assessed as follows:

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

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

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

Repairs and maintenance

Repairs and maintenance costs are recognised in profit or loss during the financial period in which these costs are incurred. The cost of a major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the 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 and equipment

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item

ACCOUNTING POLICIES (continued)

1.10. Property and equipment (continued)

Derecognition of property and equipment (continued)

of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.11. Intangible assets

Software acquired by the 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.

1.12. Impairment of non-financial assets

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

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

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

ACCOUNTING POLICIES (continued)

1.13. 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.

1.14. Related party transactions

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

1.15. 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.

1.16. Other reserves

General market risk reserve

Under rule 73 of the rules of BBS Limited (Society) Rules, 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 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. This is only applicable for the period ended 31 December 2018.

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

ACCOUNTING POLICIES (continued)

1.16. Other reserves (continued)

Statutory reserve (continued)

amount not less than 10% of its net profits. The Company did not transfer any funds to the statutory reserve in the current year because it made a net loss. 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.

1.17. Prepayments and deposits

Prepayments and deposits consist of amounts paid to third parties either in advance or to comply with contractual requirements. These amounts are recognised at the original amount paid.

1.18. Stated capital

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

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the year in which they are declared.

1.19. 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.

1.20. Loan commitments

The Company recognises a loss allowance on financial commitments in line with the requirements of IFRS 9 - Financial Instruments. Refer to note 25 and note 42

ACCOUNTING POLICIES (continued)

2. New Standards and Interpretations

2.1. Standards and interpretations effective and adopted in the current year

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

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled ("the event"). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability (asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

The effective date of the amendment is for years beginning on or after 01 January 2019.

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 01 January 2019.

IFRS 16 Leases

Leases is a new standard which replaces IAS 17 Leases and introduces a single lessee accounting model.

As permitted by IFRS 16, the Company did not restate comparative information and elected to apply the modified retrospective approach on the date of initial adoption (DIA) being 1 January 2019. On the DIA, a lease liability, measured at the present value of the remaining lease payments, discounted using the incremental

ACCOUNTING POLICIES (continued)

2. New Standards and Interpretations (continued)

2.1. Standards and interpretations effective and adopted in the current year (continued)

IFRS 16 Leases (continued)

borrowing rate at DIA was recognised. The Company elected to measure the Right of-use-Assets (ROUA) at a value equal to the lease liability as calculated at the DIA, adjusted for any lease prepayments that were made as well as any operating lease smoothing liabilities that were raised under IAS 17. This measurement option is as per IFRS 16 policy 1.5.

The ROUA recognised and the lease liability have been disclosed separately on the statement of financial position.

Operating lease commitments under IAS 17

On transition to IFRS 16 the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applies IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease under IFRS 16. Similarly, the short-term, low value and variable leases will continue with the same treatment under IAS 17, and there will be no need for the application of the related practical expedients.

Short term leases

IFRS 16 provides an exemption for leases that are short-term in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied per class of leases (i.e. leases of property, leases of vehicles, etc.). This exemption was not applicable to the company on initial application of IFRS 16 Leases as it previously expensed costs relating to these to profit or loss. The Company defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain:

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

Low-value leases

IFRS 16 provides an exemption for leases of assets that are low-value in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied on an asset-by-asset basis and is at the election of the lessee. This exemption was not applicable to the company on initial application of IFRS 16 Leases as it previously expensed costs relating to these to profit or loss.

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

- The underlying asset is not highly dependent on, or highly interrelated with, other assets; and

ACCOUNTING POLICIES (continued)

2. New Standards and Interpretations (continued)

2.1. Standards and interpretations effective and adopted in the current year (continued)

Low-value leases (continued)

- These assets have individual values that are not significant when compared to our other leased assets

Variable rate leases

Under IAS 17, certain variable lease payments where included in the amount of operating lease commitments disclosed in the Annual Financial Statements. Under IFRS 16 variable lease payments are not capitalised and are expensed when incurred. This exemption was not applicable to the company on initial application of IFRS 16 Leases as it previously expensed costs relating to these to profit or loss.

Extension and termination options

The Company's policy is to include extension and termination operations for certain property leases where there is a reasonably certain expectation asserted that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability. In assessing whether it is reasonably certain that the option will be exercised, past practices observed for similar types of leases and the economic reasons for electing those options are used to conclude whether it is reasonably certain that the option will be exercised or not.

Discounting using the Company's incremental borrowing rate

IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The Company used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The rate is indicative of Credit risk of the business that is the lessee.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at present value of the remaining lease payments discounted using the incremental borrowing rate of 7.44 % as of January 2019.

	2019 P'000	2018 P'000
Operating lease commitments disclosed as at 31 December 2018 under IAS 17	17,712	-
Add: Adjusted for treatment of extension and termination options	19,857	-
less: accrued lease liabilities as at 1 January 2019	(985)	-
Total qualifying operating leases subject to IFRS 16	**36,584**	**-**
Less: Discounted using the Company's incremental borrowing rate	(13,210)	-
Lease liability recognized as at 1 January 2019	**23,374**	**-**

ACCOUNTING POLICIES (continued)

2. New Standards and Interpretations (continued)

2.1. Standards and interpretations effective and adopted in the current year (continued)

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability.

	2019 P'000	2018 P'000
Right of use asset equal to lease liability	23,374	-
Adjustment for operating lease smoothing Liability IAS 17	(985)	-
Right of use asset recognized as at 1 January 2019	**22,389**	**-**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – nil
- right-of-use assets – increase P23 374
- lease liabilities – increase P23 374

The net impact on retained earnings on 1 January 2019 was nil.

The effective date of the standard is for years beginning on or after 01 January 2019.

2.2 Standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these financial statements. Those which may be relevant to Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

NOTES TO THE FINANCIAL STATEMENTS

	2019 P '000	2018 P '000
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash balances	5,823	5,080
Balances with banks (call and current accounts)	45,996	74,450
	51,819	**79,530**

Interest rates on current, call and money market accounts range from nil to 3% (31 December 2018: nil to 3.21%) per annum.
All cash balances held by the Company at the reporting date were available for use. None was issued as collateral.

	2019 P '000	2018 P '000
4. Investments with banks		
Redeemable within one year	936,441	514,365

Fixed deposits have terms of up to 12 months (31 December 2018: 12 months) at interest rates ranging from 4.40% to 5.25% (31 December 2018: 4.40% to 5.75%) per annum.

	2019 P '000	2018 P '000
5. Other assets		
Financial instruments:		
Gross staff debtors	14,613	13,502
Prepayments and other debtors	9,036	15,200
Rent debtors	216	401
Staff loans interest	18	15
	23,883	**29,118**
Gross staff debtors	14,613	13,502
ECL Impairment opening balance	(225)	-
IFRS 9 Transitional adjustment - day 1	-	(608)
Total ECL impairment allowance	(175)	383
	14,213	**13,277**
Lease commitments		
At the reporting date the following minimum lease rentals are receivables		
Within one year	5,450	5,481
One to five years	8,238	12,938
	13,688	**18,419**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
5. Other assets (continued)		
Staff debtors and rent debtors		
At the reporting date the following are receivables		
Within one year	6,053	5,582
After one year, within five years	8,794	8,336
	14,847	**13,918**

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

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

	Loss allowance	Loss allowance
Opening balance	**225**	**608**
Total ECL impairment allowance	**175**	**(383)**
Impairment allowance	169	(385)
Interest revenue recognition	6	2
Closing balance	**400**	**225**

6. Short-term loans and advances to customers

Gross amounts	62,241	78,999
Impairment allowance	(1,379)	(1,702)
Carrying amount	**60,862**	**77,297**
Amount to be recovered within one year	30,725	27,622
Amount to be recovered after one year	30,137	49,675
	60,862	**77,297**

Reconciliation of expected credit loss allowance on short-term loans

	Loss allowance	Loss allowance
Opening balance	**(1,702)**	**(468)**
Total ECL impairment allowance	**323**	**(1,234)**
Impairment allowance	502	(970)
Interest revenue recognition	(179)	(264)
Closing balance	**(1,379)**	**(1,702)**

Section 17(i) of the BBS Limited (Society) Rules requires that security in the form of shares and deposits is held against short term loans and advances to members.

Short term loans are for periods between twelve and sixty months, bear interest at 9.25% (31 December 2018: 9.5%) per annum and are secured by Paid up savings and Subscription savings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
7. Properties-in-possession		
Balance at beginning of the year/period	9,190	13,700
Repossessions during the year/period	7,183	7,256
Proceeds from disposals during the year/period	(6,275)	(10,912)
Loss on disposal during the year/period	(1,407)	(854)
Balance at the end of the year/period	**8,691**	**9,190**
Number of properties in possession - residentials	16	16

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.

8. Mortgage loans and advances to customers

	2019 P '000	2018 P '000
Gross amounts	3,503,763	3,283,392
Impairment allowance	(102,532)	(85,831)
Carrying amount	**3,401,231**	**3,197,561**
Amount to be recovered within one year	471,603	463,927
Amount to be recovered after one year	2,929,628	2,733,634
	3,401,231	**3,197,561**

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

	Loss allowance 31 December 2019	Loss allowance 31 December 2018
Balance as at beginning of year/period	**(85,831)**	**(73,035)**
Total ECL impairment allowance	**(16,701)**	**(12,796)**
Impairment allowance	(9,339)	(8,410)
Interest revenue recognition	(7,362)	(4,386)
Balance at year end	**(102,532)**	**(85,831)**

Mortgage loans are granted up to a maximum period of thirty years. The variable rate loans and advances amount to P3.487billion (2018: P 3.251billion) and P32million (2018: P 34million) are at fixed rates of interest.

Interest is charged at rates between 5.75% and 13.3% (2018: 6.0% and 13.8%) per annum and loans are secured by a first mortgage bond against the financed property. The rate of interest on staff mortgage loans is 3.3% (2018: 3.5%) per annum. The Company lends up to 90% of the market value of the property being financed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Mortgage loans and advances to customers (continued)

The Company experienced challenges with the upgrades performed on its core banking system (Temenos T24) since implementation on 01 October 2017. 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.

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.

	2019 P '000	2018 P '000
9. Right-of-use assets		
Net carrying amounts of right-of-use assets		
The carrying amounts of right-of-use assets are included in the following line items:		
Land and leasehold property	19,886	-
Additions to right-of-use assets		
Land and leasehold property	23,374	-
Depreciation recognised on right-of-use assets Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss.		
Buildings	2,503	-
Right-of-use asset		
Cost at date of initial application	23,374	-
IAS 17 adjustment at date of inltial application	(985)	-
Land and Leasehold property accumulated depreciation	(2,503)	-
Carrying amount	**19,886**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Intangible assets	2019 Cost / Valuation P'000	2019 Accumulated amortisation P'000	2019 Carrying value P'000	2018 Cost / Valuation P'000	2018 Accumulated amortisation P'000	2018 Carrying value P'000
Intangible assets	45,529	(29,362)	16,167	45,139	(21,769)	23,370
Capital work in progress	4,485	-	4,485	3,063	-	3,063
Total	**50,014**	**(29,362)**	**20,652**	**48,202**	**(21,769)**	**26,433**

Reconciliation of intangible assets - 2019

	Opening balance P'000	Additions P'000	Amortisation P'000	Total P'000
Intangible assets	23,370	390	(7,593)	16,167
Capital work in progress	3,063	1,422	-	4,485
	26,433	**1,812**	**(7,593)**	**20,652**

Reconciliation of intangible assets - 2018

	Opening balance P'000	Additions P'000	Amortisation P'000	Total P'000
Intangible assets	29,227	-	(5,857)	23,370
Capital work in progress	-	3,063	-	3,063
	29,227	**3,063**	**(5,857)**	**26,433**

The useful life of intangible asset is 3 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Property and equipment		**2019**			**2018**	
	Cost / P'000	**Accumulated revaluation P'000**	**Carrying value depreciation P'000**	**Cost / P'000**	**Accumulated revaluation P'000**	**Carrying value depreciation P'000**
Land and Leasehold property	92,958	(15,694)	77,264	93,051	(14,615)	78,436
Equipment, furniture and fittings	40,059	(27,224)	12,835	35,309	(24,066)	11,243
Motor vehicles	853	(310)	543	567	(442)	125
Computer hardware	21,140	(16,678)	4,462	20,624	(13,835)	6,789
Capital - Work in progress	7,907	-	7,907	1,177	-	1,177
Total	**162,917**	**(59,906)**	**103,011**	**150,728**	**(52,958)**	**97,770**

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.

Reconciliation of property and equipment - 2019

	Opening balance P'000	**Additions P'000**	**Disposals P'000**	**Transfers P'000**	**Depreciation P'000**	**Total P'000**
Land and Leasehold property	78,436	-	(92)	-	(1,080)	77,264
Equipment, furniture and fittings	11,243	646	(2)	4,133	(3,185)	12,835
Motor vehicles	125	551	(20)	2	(115)	543
Computer hardware	6,789	516	-	(3)	(2,840)	4,462
Capital - Work in progress	1,177	10,862	-	(4,132)	-	7,907
	97,770	**12,575**	**(114)**	**-**	**(7,220)**	**103,011**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Opening balance P'000	Additions P'000	Transfers P'000	Depreciation P'000	Total P'000
11. Property and equipment (continued)					
Reconciliation of property and equipment - 2018					
Land and Leasehold property	79,419	-	-	(983)	78,436
Equipment, furniture and fittings	8,328	283	5,077	(2,445)	11,243
Motor vehicles	142	-	-	(17)	125
Computer hardware	8,397	568	-	(2,176)	6,789
Capital - Work in progress	428	5,826	(5,077)	-	1,177
	96,714	**6,677**	**-**	**(5,621)**	**97,770**

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 P188.895 million (2018: P 180.435 million).

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

	2019 P'000	2018 P'000
12. Customers' savings and fixed deposit accounts		
Fixed deposits	1,537,662	877,865
Letsibogo savings	129,738	118,680
Tlamelo mortgage savings	15,656	11,386
Ordinary and special savings	153,305	153,944
Lerako (pensioners' savings account)	46,285	48,273
Lerako B	35,000	34,566
Fixed term deposit	8,769	6,482
SMME ordinary savings accounts	1,350	1,173
Indefinite period savings	540,026	511,883
	2,467,791	**1,764,252**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Customers' savings and fixed deposit accounts (continued)

Fixed deposits have a term ranging from three months to sixty months and earn interest at between 1.25% and 6.0% (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% (2018: 0.5% and 1.05%) per annum.

Savings deposits are repayable on demand. The ordinary savings deposit accrues interest at 0.25% (2018: 0.25%) per annum while the special savings earn interest between 0.5% and 0.85% (2018: 0.5% and 0.85%) per annum. Tlamelo mortgage savings accounts earn interest at 2% (2018: 2.25%) annually. Lerako savings accounts earn interest from 1.50% to 3.50% (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 5.75% (2018: 6.0%) per annum.

	2019 P'000	2018 P'000
13. Paid up and subscription savings		
Paid up savings	361,733	357,678
Subscription savings	55,324	47,734
	417,057	**405,412**

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 1.40% and 2.25% (2018: 1.65% and 2.50%) per annum respectively

	2019 P'000	2018 P'000
14. Withholding tax		
Withholding tax	**1,619**	**827**

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
15. Borrowings		
Gross future cash flows		
Unsecured longterm-bonds	619,944	710,242
International Finance Corporation	341,786	359,625
African Banking Corporation of Botswana Limited	153,838	242,365
Stanlib Investment Management Services (Pty) Ltd	153,281	154,542
Total borrowings	**1,268,849**	**1,466,774**
Less: future interest payments		
Unsecured longterm-bonds	(179,030)	(213,361)
International Finance Corporation	(83,927)	(103,039)
African Banking Corporation of Botswana Limited	(10,747)	(21,010)
Stanlib Investment Management Services (Pty) Ltd	(1,944)	(2,331)
	(275,648)	**(339,741)**
Capital amount due at the reporting date	**993,201**	**1,127,033**
Borrowings repayable within one year		
Unsecured longterm-bonds	51,040	80,982
International Finance Corporation	34,109	18,460
African Banking Corporation of Botswana Limited	82,726	77,634
Stanlib Investment Management Services (Pty) Ltd	151,337	152,211
	319,212	**329,287**
Borrowings repayable after one year		
Unsecured longterm-bonds	389,874	415,900
International Finance Corporation	223,750	238,125
African Banking Corporation of Botswana Limited	60,365	143,721
	673,989	**797,746**
Capital amount due at the reporting date	**993,201**	**1,127,033**
Principle balance		
Unsecured longterm-bonds	435,622	491,200
International Finance Corporation	260,000	260,000
African Banking Corporation of Botswana Limited	143,500	221,289
Stanlib Investment Management Services (Pty) Ltd	150,000	150,000
	989,122	**1,122,489**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
15. Borrowings (continued)		
Accrued interest		
Unsecured longterm-bonds	5,490	5,981
International Finance Corporation	732	708
African Banking Corporation of Botswana Limited	1,338	2,211
	7,560	**8,900**
Arrangement fees		
Unsecured long term bonds	(199)	(300)
African Banking Corporation of Botswana Limited	(410)	(4,056)
International Finance Corporation	(2,872)	-
	(3,481)	**(4,356)**
Capital amount due at the reporting date	**993,201**	**1,127,033**

African Banking Corporation of Botswana Limited

As at the reporting date the Company had three loans with African Banking Corporation of Botswana Limited. 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 (now known as Vunani Fund Managers)

The loan amounts to P150 million (31 December 2018: P150 million) and was issued as two notes each with an amount of P75 million. The loan was rolled over for another 12 months. The first principal amount of P75 million was payable on 12 February 2020 and the remaining P75 million on 10 April 2020. The interest payments are payable in arrears at the 3 month BoBC rate plus a margin of 500 basis points (31 December 2018: 91- day BoBC rate plus a margin of 500 basis points) per annum.

International Finance Corporation

International Finance Corporation 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

BBSL bond BBS005 is the only bond listed on the Botswana Stock Exchange Limited.:BBS004 Bond of P75 million matured during the year in November 2019 and all proceeds successfully paid off.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Borrowings (continued)

31 December 2019

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS005	03 December 2023	150,000	Fixed	11.20%
BBS007	26 August 2025	86,700	Fixed	9%
BBS008	02 October 2022	45,500	Fixed	7.75%
BBS009	03 March 2022	14,000	Floating	Bank of Botswana Bank rate plus 2%
BBS010	27 December 2028	139,422	Fixed	8% reducing balance method

31 December 2018

Number	Maturity date	Amount P'000	Type	Interest rate per annum
BBS004	26 November 2019	75,000	Fixed	11.10%
BBS005	03 December 2023	150,000	Fixed	11.20%
BBS007	26 August 2025	86,700	Fixed	9%
BBS008	02 October 2022	45,500	Fixed	7.75%
BBS009	03 March 2022	14,000	Floating	Bank of Botswana Bank rate plus 2%
BBS010	27 December 2028	150,000	Fixed	8% reducing balance method

	2019 P '000	2018 P '000
16. Debentures		
Principal balance	101,000	101,000
Accrued interest on debentures	1,354	1,205
	102,354	**102,205**
Maturity analysis		
- within one year	6,323	6,565
- in second to fifth year inclusive	25,260	26,280
- later than five years	123,099	130,573
carrying amount	**154,682**	**168,418**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Debentures (continued)

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

	2019 P '000	2018 P '000
17. Lease liabilities		
Minimum lease payments due		
- within one year	3,000	-
- in second to fifth year inclusive	12,000	-
- later than five years	10,512	-
Total undiscounted lease liability	25,512	-
less: future finance charges	(4,000)	-
Present value of minimum lease payments	**21,512**	**-**
Present value of minimum lease payments due		
- within one year	3,000	-
- in second to fifth year inclusive	12,000	-
- later than five years	6,512	-
carrying amount	**21,512**	**-**

The operating leases the Company has entered into are for office space it operates from at various locations. The duration of the leases range between five to ten years with an option to renew. The leases are subject to escalations between 6% and 10% on anniversary. Interest expense relating to lease liabilities is disclosed under note 22.

	2019	2018
Maturity analysis - operating lease		
- within one year	-	3,112
- in second to fifth year inclusive	-	14,600
carrying amount	**-**	**17,712**
18. Other liabilities		
Accounts payables	6,828	13,196
Other creditors	298	760
Other payroll liabilities	6,876	9,008
Accrued interest on deposits	46,543	14,754
Accrued interest on paid up deposit	9,349	9,332
Loan commitments issued- allowance for impairment	250	169
Mortgage deferred administration fees	18,769	14,966
	88,913	**62,185**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
18. Other liabilities (continued)		
Maturity analysis - Mortgage administration fees		
- within one year	1,125	836
- in second to fifth year inclusive	4,500	3,346
- later than five years	13,144	10,784
carrying amount	**18,769**	**14,966**
The accounts payable include amounts payable to creditors.		
Balance at the beginning of the year/period	**7,834**	**9,102**
Creditors provisions made during the year/period	616	1,714
Creditors provisions used during the year/period	(6,820)	(2,982)
Balance at the end of the year/period	**1,630**	**7,834**
The other payroll liabilities amount is made up of leave and gratuity provisions		
Reconciliation of the expected credit loss allowance (ECL) on loan commitments	**Loss allowance 31 December 2019**	**Loss allowance 31 December 2018**
Opening balance	**169**	**75**
Impairment allowance	81	94
Closing balance	**250**	**169**
19. Stated capital and Indefinite period shares		
Authorised		
Ordinary shares of par value P1	487,453	487,014
Issued		
Ordinary	487,453	487,014
Ordinary shares		
Balance at the beginning of the year/period	487,014	-
Issue of shares	439	487,014
Balance at the end of the year/period - fully paid	**487,453**	**487,014**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000

19. Stated capital and Indefinite period shares (continued)

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

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.

	2019 P '000	2018 P '000
Indefinite period shares		
Balance at the beginning of the year/period	**-**	**945,716**
Conversion adjustments	-	(945,716)
Balance at the end of the year/period - fully paid	**-**	**-**

As at 31 December 2019, shares amounting to P17.8 million were held in a BBSL Trust Account with the Botswana Stock Exchange. These shares are for shareholders who did not have CSDB accounts as at the time of registering the shares in the BSEL Serala OTC.

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.

	2019 P '000	2018 P '000
Balance at the beginning of the year/period	**113,437**	**124,462**
Transfer to ordinary shares	-	(10,266)
Payment to shareholders - conversion	-	(759)
Balance at the ned of the year/period	**113,437**	**113,437**

General market risk reserve

The general market risk reserve was established in terms of rule 73 of the rules of BBS Limited(society) rules to cover general market risks. The balance of the reserve was transfered to ordinary share in the prior year.

	2019 P '000	2018 P '000
Balance at the beginning of the year/period	**-**	**64,000**
Transfer to ordinary shares	-	(64,000)
Balance at the end of the year/period	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
21. Interest income		
Cash and cash equivalents	41,486	17,994
Long term loans and advances	270,621	194,999
Short term loans and advances	6,395	7,038
Total interest income calculated using the effective interest method	**318,502**	**220,031**
Cash and cash equivalents	41,486	17,994
Long term loans and advances	277,483	199,385
Short term loans and advances	6,580	7,304
Gross interest income calculated using the effective interest method	**326,049**	**224,683**
Interest revenue recognition adjustment		
Cash and cash equivalents	-	-
Long term loans and advances	7,362	4,386
Short term loans and advances*	(185)	(266)
	7,177	**4,120**
Net interest income	**318,502**	**220,031**

* Includes interest revenue recognition on staff debtors-loans of P0.005 million.

	2019 P '000	2018 P '000
22. Interest expense		
Unsecured loan term bonds	48,502	29,427
Term loans	39,698	32,873
Debentures	6,519	4,497
Paid up and subscription savings	6,829	5,522
Fixed deposits	67,339	27,737
Savings accounts	4,533	3,585
Indefinite period savings	30,952	24,926
lease interest liability	1,629	-
Total interest expense	**206,001**	**128,567**

	2019 P '000	2018 P '000

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.

Fee and commission income	2019 P '000	2018 P '000
Administration fees	4,485	3,575
Account services	5,813	4,877
Transactional	3,742	2,972
Commissions	6,037	4,307
	20,077	**15,731**
Interbank transaction fees	(1,065)	(818)
Net fee and commission income	**19,012**	**14,913**

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

	2019 P '000	2018 P '000
Contract liabilities which are included in other liabilities	18,769	14,966

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
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.

		2019 P '000	2018 P '000
24. Other operating income			
Other rental income		5,311	3,393
Profit on disposal of assets		95	133
Sundry income		1,960	119
		7,366	**3,526**
25. Expected Credit losses			
Expected credit losses on financial assets			
Impairment allowance-excluding interest revenue recognition			
Expected credit loss allowance - mortgages	8	9,339	8,410
Expected credit loss allowance - mortgages Loan commitments	18	81	94
Expected credit loss allowance - short loans	6	(502)	970
Expected credit loss allowance - staff loans	5	169	(385)
		9,087	**9,089**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
25. Expected Credit losses (continued)		
Write-down on non-financial assets		
Net loss on disposal of properties sold in execution	13,409	5,442
	22,496	**14,531**
Interest revenue recognition		
Mortgage loans and advances	7,362	4,387
Short-term loans and advances	179	264
Staff debtors-loans	5	2
	7,546	**4,653**
	30,042	**19,184**

Write-downs of non-financial assets to net realisable value amounted to P12.185 million (31 December 2018: 6.481 million). The Company recovered P1.553 million (31 December 2018: 1.039 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 reject 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 2019 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.

The ECL increased by 19% as a result of the deterioration of loans sitting under stage 3. Loans categorised as doubtful and loss increased by 21%.

26. Personnel expenses

	2019 P '000	2018 P '000
Employee costs		
Salaries and wages	65,096	47,722
Pension fund contributions	5,827	4,100
Leave pay expenses	2,156	1,464
Fair value adjustments-off market staff loans	2,167	2,313
	75,246	**55,599**

27. Depreciation and amortisation

	2019 P '000	2018 P '000
Depreciation		
Property and equipment	7,220	5,621
Right-of-use assets	2,504	-
	9,724	**5,621**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
27. Depreciation and amortisation (continued)		
Amortisation		
Intangible assets	7,592	5,858
Total depreciation and amortisation		
Depreciation	9,724	5,621
Amortisation	7,592	5,858
	17,316	**11,479**
28. Operating lease expenses		
Cash payments	-	2,292
Movement in operating lease liability	-	(54)
	-	**2,238**

The Company elected not to restate comparative information as permitted by IFRS 16.

	2019 P '000	2018 P '000
29. Other expenses		
Directors fees	844	1,100
Audit fees - current year	2,740	2,262
Audit fees - prior period cost overruns	1,600	-
Advertising and marketing	2,953	3,508
Computer maintenance expenses	3,960	3,215
Insurance	1,766	1,156
Legal and professional expenses	8,914	9,859
License fees	14,467	12,039
Repairs and maintenance	4,461	3,514
Printing and stationery	1,058	1,100
Telephone and postage	3,615	2,411
Travel & subsistence costs	1,544	2,152
Office supplies	1,746	1,530
Security expenses	3,033	2,186
Subscriptions	349	79
Water & electricity	1,649	1,212
Other expenses	1,105	1,622
VAT expense	3,778	3,302
	59,582	**52,247**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
30. Dividend per share		
Ordinary shareholders	487,453	487,014

No dividened was declared in the current or previous period..

31.Basic and Diluted earnings per share

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

	2019 P '000	2018 P '000
Loss attributed to shareholders	(35,761)	(26,191)
Number of ordinary shares in issue at beginning and end of the year (thousands)	487,453	487,014
Basic and diluted earnings per share (thebe)	(7.30)	(5.40)

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

	2019 P '000	2018 P '000
Committment in respect of mortgages approved but not yet disbursed	148,356	110,259
Mortgage commitments are for a period not exceeding 12 months.		
Capital expenditure - approved but not yet committed	33,036	68,704
Capital expenditure - approved and committed	12,391	2,867
Capital commitments are for general projects undertaken by the Company.		

33. Related parties

Related party balances
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:

	2019 P '000	2018 P '000
Amounts due to related parties		
Savings accounts		
Executive Management	961	593
Interest expense on savings accounts		
Executive Management	7	7
Paid up, subscription and indefinite period paid up savings		
Executive Management	4,304	3,541
Interest expense on paid up, subscription and indefinite period paid up savings		
Executive Management	253	95
Ordinary share accounts		
Executive Management	243	884

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 P '000	2018 P '000
33. Related parties (continued)		
Indefinite period paid-up savings		
Motor Vehicle Accident Fund	85,790	85,377
Botswana Privatisation Asset Holdings	70,757	71,158
Botswana Police Staff Savings and Loans Guarantee Scheme	139,157	131,931
	295,704	**288,466**
Interest expense on Indefinite period paid-up savings		
Motor Vehicle Accident Fund	2,568	3,563
Botswana Privatisation Asset Holdings	2,129	2,744
Botswana Police Staff Savings and Loans Guarantee Scheme	4,081	4,031
	8,778	**10,338**
Debentures		
Motor Vehicle Accident Fund	41,000	41,489
Botswana Privatisation Asset Holdings	50,000	50,597
	91,000	**92,086**
Interest expense on debentures		
Motor Vehicle Accident Fund	2,646	1,825
Botswana Privatisation Asset Holdings	3,227	2,226
	5,873	**4,051**
Ordinary shares		
Motor Vehicle Accident Fund	36,793	36,793
Botswana Privatisation Asset Holdings	72,325	72,325
Botswana Police Staff Savings and Loans Guarantee Scheme	44,824	44,824
	153,942	**153,942**
Total amount due to related parties	**561,065**	**554,003**

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 Staffsavings and loans guarantee scheme is owned by its employees.

	2019 P '000	2018 P '000
Amounts due from related parties		
Mortgages		
Non-Executive Directors	-	78
Executive Management	11,825	33,685
	11,825	**33,763**
Short-term loans		
Executive Management	484	532
Staff loans		
Executive Management	2,944	3,250
Total amounts due from related parties	**15,253**	**679,271**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Related parties (continued)

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.

	2019 P '000	2018 P '000
Related party transactions		
Amounts paid to related parties		
Non-Executive Directors - remuneration fees	844	1,100
Executive Management - interest expense	261	101
	1,105	**1,201**
Amounts received from related parties		
Non-Executive Directors - interest income	-	111
Executive Management - interest income	11,116	1,232
	11,116	**1,343**
Executive Management		
Gross emoluments of the key management personnel are analysed as follows:		
Salaries, allowances and other short-term benefits	11,905	12,130
Post-employment benefits	3,882	3,203
	15,787	**15,333**

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

34. Events after the reporting period

Impact of the COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. The President of the Republic of Botswana declared state of emergency for 6 months and a national lock down for the whole of Botswana from 02 April 2020 to 22 May 2020 in line with similar measures instituted across the world. The impact of both the pandemic and the instituted measures have had an adverse impact on the global and local economy as well.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

34. Events after the reporting period (continued)

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 or remote impact assumes that there will no longer be any lockdowns and life will return to normalcy by end of December 2020 and
- the moderate or manageable impact assumes that life will return to normalcy by June 2021 and
- the severe or extreme impact assumes that life will only return to normalcy after a period of twelve months.

Management's view is that the period of extreme lockdowns is over as we now move towards adoption of the strategy to live alongside the disease until such a time when a vaccine is found. The impact of the extreme social distancing measures has been devastating to the economy and we don't foresee such drastic measures implemented again.

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 1 April 2020 as part of monetary policy measures taken by the Government to assist banks with the pressure from the pandemic.

The COVID-19 pandemic occurred subsequent to the 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 period. However, in order to estimate the impact of COVID-19 during the subsequent period Management has performed an assessment on key financial ireporting 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.

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

Ratio	YTD Nov 2020	Base: Dec 2021 Projections	Mild impact	Moderate impact	Severe impact
Liquid assets to short term liabilities ratio	18.20 %	20.84 %	17.44 %	13.73 %	12.81 %
Cost to income ratio	96.90 %	110.00 %	110.00 %	111.00 %	111.00 %
Capital adequacy ratio	27.60 %	24.50 %	22.00 %	22.69 %	23.72 %

NOTES TO THE FINANCIAL STATEMENTS (continued)

34. Events after the reporting period (continued)

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.

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 P36 million for the year ended 31 December 2019 (31 December 2018: loss of P26 million) and as of that date its total assets exceeded total liabilities by P534 million. (31 December 2018: P569 billion), a reduction of P35 million from prior year. The liquid assets to deposits ratio as at 31 December 2019 stood at 27.97% (31 December 2018: 26.60%) and is above the regulatory threshold of 10%. Further to that a maturity mismatch of asset and liabilities is depicted at note 42.

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 company which is expected to turnaround the loss-making position. 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 P988 million at the reporting date (31 December 2018: P594 million), as disclosed in note 4 and 5. 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 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. Litigation

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

38. Compliance with the Companies Act

Following challenges that impeded the completion of the December 2018 audit within the stipulated period, and consequently that of the subsequent financial year 2019, BBS Limited ("BBSL") filed an ex parte application with the High Court of the Republic of Botswana ("High Court") to be able to file the audited sets of financials out of time.

BBSL was not able to meet the requirements of Section 205 (1) of the Act which provides that:

(1) The Board of every company shall ensure that, within five months after the balance sheet date of the company, in the case of a public company, and within seven months after balance sheet date in the case of any other company, financial statements that comply with sections 206 to 208 are:

(a) completed in relation to the company and that balance sheet date; and
(b) dated and signed on behalf of the Board by two directors of the company, or, if the company has only one director, by that director.

Therefore, BBSL was required to have prepared its 2018 and 2019 financial statements by no later than 31st May 2019 and 31st May 2020, respectively.

In its court application, BBSL explained that the preparation of the 2018 financials was undermined by work that was done to upgrade its core banking system T24 ("T24") in preparation for the application for a banking license. The T24 upgrade was intended to ensure that BBSL is ready for the functions of a commercial bank.

The T24 Project commenced with the signing of the project initiation document in December 2016 and the new system went "live" in October 2017, six months before the 2017/18 year-end. It was timed to end well in time for a smooth run of the year- end which was end of March 2018 at the time. Unfortunately, BBSL experienced post upgrade system challenges, some of which had an impact on financial reporting.

Aware of the consequences of not completing the 2018 audit on time, BBSL sought legal counsel on the matter and was advised by its Attorneys ("Armstrongs") of extension may be granted by the High Court in terms of Section 18 (b) of the Act which provides that:

Where a person is required by this Act to do any act within a specified time, he may be granted an extension of time within which the act is required to be done by the:

(a) Registrar, for a period not exceeding 60 days; and
(b) court, upon expiry of the 60 days extension under paragraph (a), in accordance with section 518 (4) on good cause being shown.

Section 518 (4) of the Act also provides that;

The court may, whether a company is in the process of being wound up or not, on good cause being shown, enlarge or abridge any time for doing any act or taking any proceeding allowed or limited by this Act or any subsidiary enactment made under this Act on such terms as the justice of the case may require and any such enlargement may be ordered although the application for the same is not made until after the time originally allowed or limited.

Thus, BBSL resorted to court application because it had exhausted extensions of the compliance period granted by the Registrar of Companies in accordance with Section 205 (2) of the Act, Section 18 (a). The provisions were no longer available to be exercised by the Registrar with respect to the audited financials.

NOTES TO THE FINANCIAL STATEMENTS (continued)

38. Compliance with the Companies Act (continued)

Therefore, BBSL sought recourse under Section 18 (b) Act following legal advice and in order to obtain an order in terms of the provision, it made an ex-parte application to court, seeking, on good cause as per the explanation above regarding T24, an order extending time within which the;

- 2018 and 2019 audited financial statements were required to be completed and submitted to the Registrar in terms of the Companies Act;
- 2018 and 2019 Annual Reports for BBSL affairs were required to be completed and submitted to the Registrar in terms of the Companies Act;
- 2018 and 2019 Annual General Meetings were required to be convened in terms of the Companies Act;
- 2018 and 2019 annual returns were required to be submitted to the Registrar in terms of the Companies Act.

The High Court agreed with BBSL granting it a rule nisi which upon not being opposed by the returnable date of 23 September 2020, it was made into an Order of Court. Therefore, BBSL was granted an extension to have submitted its audited financial statements for 2019 by 31 December 2020.

39. 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.

40. Shareholder information

	31 December 2019 No of shares held	31 December 2019 % holding
Botswana Privatisation Asset Holding (Pty) Ltd	72,325	14.84 %
Botswana Police Staff Savings and Loans Guarantee Sceheme	44,823	9.20 %
Mr Derek Brink	25,872	5.31 %
Motor Vehicle Accident Fund	36,793	7.55 %
Ms Rita Brink	35,341	7.25 %
Mr Simon Hirschfeld	13,191	2.71 %
Estate of late Abdul Joseph	12,191	2.50 %
Mr Derek Brink - 2	12,139	2.49 %
Botlhale Investments (Pty) Ltd	11,966	2.45 %
Ms Lerie Brink	11,037	2.26 %
Others	211,775	43.45 %
Total shareholding	**487,453**	**100**

NOTES TO THE FINANCIAL STATEMENTS (continued)

40. Shareholder information (continued)

	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 Sceheme	44,823	9.20 %
Mr Derek Brink	25,872	5.31 %
Motor Vehicle Accident Fund	36,793	7.55 %
Ms Rita Brink	35,341	7.26 %
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	43.39 %
Total shareholding	**487,014**	**100**

41. Contingent liability

BBSL Board approved a retrenchment policy as at December 2018 in view of the impending change as the Company is in the process of applying for a commercial banking license. The policy is intended to enable the acquisition of the required skills for the organisation. This will be applied alongside other human resource strategies which includes but not limited to re-training, redeploying, recruiting and retrenching where applicable. Subsequent to the 2018 reporting period, Management communicated the redundancy and retrenchment policy to employees through January 2019 management brief reports which are circulated to all employees. Formal communication was sent to the Department of Labour and Social Security in December 2019 of the possible redundancies that would arise from the impending change.

During the month of June 2020 a decision was taken to defer the exercise for a period of not less than 12 months in response to the various development that became apparent such as the impact of COVID–19 disease, and economic conditions that have affected the financial position of the Company specifically the Capital and Liquidity adequacy. 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 will commence. In addition, the separation packages for staff cannot be reliably estimated as the exit mechanisms that will be implemented by the Company are still to be determined. On this basis, Management has not recognized a provision as at 31 December 2019.

42. Financial instruments and risk management

Financial risk management

Introduction and overview

The Company has adopted an Enterprise-wide approach to risk management which is in compliance with the directive on Revised International Convergence of Capital Standards for Botswana (Basel II) risk framework. The Enterprise-wide Risk Management (ERM) approach can be defined as a process that enables organisations to effectively deal with varied types of risks and opportunities, thus increasing stakeholder value. In terms of the ERM Framework, the Company has

42. Financial instruments and risk management (continued)

identified material risks (called Level 1 risks) to which it is exposed and assigned risk ownership of these risks to various members of the senior management team. For monitoring and reporting purposes, the Executive Committee and the Board use a set of Key Risk Indicators (KRIs) of inherent risk across the predefined risk categories, assessing if they are within tolerances, and if the trend is increasing, stable, or decreasing. These are tracked in a common reporting format. High risk indicators and action plans are tracked by the various committees with update reporting to the Board at least quarterly or as requested.

In terms of the ERM Framework, risks identified are categorised by sources to facilitate the determination of root cause and subsequently to assign responsibility for responses.

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

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

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

- The first line is the 'business'. This refers to both customer-facing staff as well as staff in back offices and operational departments. All departments are directly responsible to identify and manage all risks that will or can materialise in the course of doing business. This includes the mentioning of risk management in each policy and procedure and making sure procedures are designed to include checks and balances through internal control activities and the separation of duties as much as possible. It also includes performing risk self-assessments, keeping track of risk events, monitoring and reporting. Departmental heads also need to ensure risk related Key Performance Indicators (KPIs) are embedded in staff job descriptions and performance management documents.
- The second line of defence are the various sections in the Risk Function. These units play a supporting and controlling role for the benefit of the first line of defence, ensuring necessary risk activities are executed with the necessary detail and quality. The second line of defence is considered 'part of Management'; and
- The third line of defence is the Internal Audit functions. The Internal Audit Department is not considered as 'part of Management' and works independently, objectively and reports to the Board Finance and Audit Committee.

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

Step 1 – Identify risks

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

Step 2 – Analyse risks

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Step 3 – Respond to the risks

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

- Mitigate
- Avoid
- Transfer
- Accept
- Exploit

Step 4 – Monitor risks

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

- provide assurance that risks are being managed as expected;
- assess whether the risk response plans remain relevant; and
- ensure that the risk profile anticipates and reflects changed circumstances and new exposures.

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

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

Risk response should be measured in terms of efficiency and effectiveness. Efficiency measures the cost of implementing risk management responses in terms of time, money and resources, whereas effectiveness measures the relative degree to which the responses reduce the impact or likelihood of the risk occurring.

To maximise efficiency and effectiveness of risk responses, monitoring and reporting should be integrated with existing business processes and reporting as far as possible.

Step 5 – Report on the risks

While everyone in BBSL is responsible for enterprise risk management in their respective areas, some staff have specific responsibilities. The policy and design for enterprise risk management is driven by the Board and managed by the enterprise risk management team.

The reporting structure ensures that risk response gaps are addressed and the risk responses are operating effectively under changing conditions. Enterprise risk management activities should be monitored and reported upwards throughout BBSL.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Governance

Role of the Internal Audit Department

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

Role of the Board

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

The Board has the following sub committees:

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

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

The Company's enterprise –wide risk framework is aligned to the directive on Revised International Convergence of Capital Standards for Botswana (Basel II) as issued by Bank of Botswana and is premised on three pillars:

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

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

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

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, investments 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).

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 Credit. Larger facilities require approval by the Credit Approvals Committee and the Global Credit Risk Management Committee. Any loans which are more than 5% of the 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.

42. Financial instruments and risk management (continued)

Management of credit risk (continued)

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 allowance for the Lifetime Expected Credit Loses (LTECLs). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Reclassifications from stage 3 are however subject to a 'cooling off" period of 3 months.
- Stage 3: Loans are considered credit impaired. The Company records an allowance for the life-time expected credit loss.

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 Board Finance and Audit Committee. The Board approves management's lending limits and monitors loans and advances that are not performing.

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

	Note	31 December 2019 P'000	31 December 2018 P'000
Balances with banks (call and current accounts)	3	45,996	74,450
Investments with banks	4	936,441	514,365
Short-term loans and advances to customers	6	60,862	77,297
Mortgage loans and advances to customers	8	3,401,231	3,197,561
Staff debtors	5	14,847	13,918
		4,459,377	**3,877,591**

The above table represents a worst-case scenario of credit risk exposure to the Company at 31 December 2019 and 31 December 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 76% of the total maximum exposure is derived from mortgage loans and advances to customers (31 December 2018: 82%) and 21% represents fixed deposits with banks (31 December 2018: 13%).

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:

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Management of credit risk (continued)

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 2019.

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

31 December 2019	Stage 1 Performing P'000	Stage 2 Performing P'000	Stage 2 Non-Performing P'000	Stage 3 Non-Performing P'000	Total P'000
Assets at amortised cost individually impaired	-	-	-	-	-
Standard	2,540,601	-	5,740	9,344	2,555,685
Special mention/Watch list	299,508	63,543	95,747	19,563	478,361
Substandard	2,105	-	56,702	21,193	80,000
Doubtful	-	-	-	150,681	150,681
Loss	-	-	-	239,036	239,036
Gross carrying amount	**2,842,214**	**63,543**	**158,189**	**439,817**	**3,503,763**
ECL impairment allowance	(3,884)	(767)	(2,420)	(95,461)	(102,532)
	(3,884)	**(767)**	**(2,420)**	**(95,461)**	**(102,532)**
Net loans and advances	**2,838,330**	**62,776**	**155,769**	**344,356**	**3,401,231**

31 December 2018	Stage 1 Performing P'000	Stage 2 Performing P'000	Stage 2 Non-Performing P'000	Stage 3 Non-Performing P'000	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	47,972	95,669
Doubtful	-	-	-	122,918	122,918
Loss	-	-	-	198,880	198,880
Gross carrying amount	**2,598,569**	**2,440**	**242,359**	**440,024**	**3,283,392**
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**

The ECL increased by 19% as a result of the deterioration of loans sitting under stage 3. Loans categorised as doubtful and loss increased by 21%. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in accounting policy note 1.8.

	2019	2018
42. Financial instruments and risk management (continued)		
Impairment (ECL) coverage ratio	2.92 %	2.61 %
Stage 3 coverage ratio	21.70 %	17.75 %

Mortgage loans and advances to customers – Off Balance Sheet

31 December 2019	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**Total P'000**
Assets at amortised cost individually impaired				
ECL impairment allowance	250	-	-	250

31 December 2018	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**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.

31 December 2019	**Stage 2 P'000**	**Stage 3 Non- P'000**	**Stage 3 Non- P'000**	**Total P'000**
Assets at amortised cost individually impaired				
Balance as at 31 December 2018	**3,481**	**4,247**	**78,103**	**85,831**
Transfers:				
To stage 1	5,478	(910)	(4,568)	-
To stage 2	(89)	3,802	(3,713)	-
To stage 3	(139)	(1,273)	1,412	-
Net re-measurement of loss allowance: Accounts changed staging				
Transfer to stage 1	(5,334)	-	-	(5,334)
Transfer to stage 2	-	(2,165)	-	(2,165)
Transfer to stage 3	-	-	11,633	11,633
Net re-measurement of loss allowance: No change in staging	(305)	(589)	14,439	13,545
New financial assets originated	947	139	376	1,462
Financial assets that have been derecognised	(156)	(65)	(1,285)	(1,506)
Write-offs	-	-	(935)	(935)
Balance as at 31 December 2019	**3,883**	**3,186**	**95,462**	**102,531**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

31 December 2018	Stage 2 P'000	Stage 3 Non- P'000	Stage 3 Non- P'000	Total P'000
Assets at amortised cost individually impaired				
Balance as at 31st March 2018	**2,374**	**2,592**	**68,068**	**73,034**
Transfers:				
To stage 1	3,896	(825)	(3,071)	-
To stage 2	(534)	2,336	(1,802)	-
To stage 3	(89)	(769)	858	-
Net re-measurement of loss allowance: Accounts changed staging				
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 as 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 2019 and that are still subject to enforcement activity is P5.446 million (31 December 2018: 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 December 2019 P'000	31 December 2018 P'000
Opening balance	440,418	305,764
Change in allowance for impairment	(24,310)	(9,762)
Classified as credit-impaired during the period	149,122	169,547
Transferred to not credit-impaired during the period	(125,413)	(25,131)
Closing balance	**439,817**	**440,418**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

	31 December 2019 P'000	31 December 2018 P'000
Number of Credit- impaired mortgage loans and advances	**328**	**362**
Net repayments - recoveries	(1,553)	(1,000)

Bank Balances

The Company held bank balances of P988 million as at 31 December 2019(2018: P 594 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	8	Property
Short term loans	6	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.

LTV ratio	Note	31 December 2019 P'000	31 December 2018 P'000
Less than 60%		1,316,634	1,295,417
60 - 70%		517,425	437,954
70 - 80%		561,797	516,628
80 - 90%		929,789	860,125
More than 90%		178,119	173,268
Total	**8**	**3,503,763**	**3,283,392**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Loan commitments	Note	31 December 2019 P'000	31 December 2018 P'000
Less than 60%		16,080	49,415
60 - 70%		15,476	4,697
70 - 80%		33,543	13,462
80 - 90%		81,381	20,820
More than 90%		1,876	21,865
Total	32	**148,356**	**110,259**

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

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 December 2019 P'000	Loans and advances to customers 31 December 2018 P'000
Against Stage 2 and 3 facility - Property	892,033	919,633
Against Stage 1 loans facility - Property	6,388,328	6,111,077
Carrying amount as a proportion of collateral cover	262,489	76,906
Total	**7,542,850**	**7,107,616**
Carrying amount as a proportion of collateral cover	46 %	46 %

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.

31 December 2018	Mortgage loans		Loan commitments	
Dec 2019	**Dec 2019 P'000**	**Dec 2018 P'000**	**Dec 2019 P'000**	**Dec 2018 P'000**
Carrying amount or amount committed	**3,503,763**	**3,283,392**	**148,356**	**110,259**
Concentration by sector				
Residential	3,184,718	2,984,972	144,268	104,802
Commercial	319,045	298,420	4,088	5,457
	3,503,763	**3,283,392**	**148,356**	**110,259**
Concentration by location				
Residential	3,380,540	3,153,807	147,151	107,577
Commercial	123,223	129,585	1,205	2,682
	3,503,763	**3,283,392**	**148,356**	**110,259**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Liquidity risk

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

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

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

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

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

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

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

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

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

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

- Ensure effective cash management in order to meet daily liquidity requirement;

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Liquidity risk (continued)

- Maintain adequate diversification of funding;
- Building strong relationships with providers of funding; and
- Incorporating liquidity costs in internal pricing, performance measurement and new product approval.

The Company'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 withdrawals, loan draw downs and commitments as and when they fall due.

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

The 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.

	31 December 2019 P'000	31 December 2018 P'000
Total statutory requirement	376,760	312,784
Total cash and cash equivalents, investments or authorised deposits	988,260	593,895
Surplus	**611,500**	**281,111**

Exposure to liquidity risk

The Company was liquid as at 31 December 2019 with a total statutory liquid assets to deposits ratio of 27.97% (December 2018: 26.6%) compared to a BOB required minimum of 10%.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Exposure to liquidity risk (continued)

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:

31 December 2019	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	51,819	-	-	-	-	51,819
Investments with banks	233,145	381,816	321,480	-	-	936,441
Short-term loans and advances to customers	2,644	5,227	22,854	69,897	-	100,622
Mortgage loans and advances to customers	39,550	78,848	353,205	1,828,873	4,088,873	6,389,349
Other assets	758	1,045	4,250	11,875	-	17,928
Total assets	**327,916**	**466,936**	**701,789**	**1,910,645**	**4,088,873**	**7,496,159**
Liabilities and equity						
Customers' savings and fixed deposit accounts	603,266	469,275	545,558	777,042	552,751	2,947,892
Borrowings	8,580	104,893	209,511	767,243	182,103	1,272,330
Debentures	-	-	6,323	25,260	123,099	154,682
Other liabilities	6,828	-	-	-	-	6,828
Total liabilities	**618,674**	**574,168**	**761,392**	**1,569,545**	**857,953**	**4,381,732**
Net liquidity gap	**(290,758)**	**(107,232)**	**(59,603)**	**341,100**	**3,230,920**	**3,114,427**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 and equity						
Customers' 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 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**

Market risk

The Company does not have a trading book and was therefore not exposed to Market Risk in the Trading Book. The Company has developed a framework for the management of Interest Rate in the Banking Book (IRRBB). IRRBB is the risk that the Company's financial position will be exposed to the adverse movements in interest rates. IRRBB arises when there is a mismatch between the maturity profiles of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL). Interest rates are managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The impact of rate changes is measured, managed, monitored and reported on a monthly basis by ALCO. The adverse impact generated from the shock is related to regulatory capital in order to assess the magnitude of the impact.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Market risk (continued)

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities. Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from non-trading activities. The Company is precluded by the Building Societies Act to the use of any derivatives to manage interest rate risk.

The overall objective of interest rate risk management is to maintain stability of net interest income (NII) over time. This is seen as being consistent with maximising shareholder value.

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

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

The Company is negatively affected by lower interest rates due to the asset sensitivity of its Balance Sheet.

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 December 2019 P'000	31 December 2018 P'000
Total financial assets	4,561,694	3,877,190
Total financial liabilities	(3,980,399)	(3,885,916)
	581,295	**(8,726)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

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.

	31 December 2019 P'000	31 December 2018 P'000
Pre-tax profit	11,687	(175)
Equity	**11,687**	**(175)**

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:

31 December 2019	**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	45,996	-	-	-	-	45,996
Investments with banks	611,907	324,534	-	-	-	936,441
Other assets	14,630	-	-	-	-	14,630
Short-term loans and advances to customers	60,863	-	-	-	-	60,863
Mortgage loans and advances to customers	3,476,357	313	2,073	2,585	22,436	3,503,764
Total assets	**4,209,753**	**324,847**	**2,073**	**2,585**	**22,436**	**4,561,694**
Customers' savings and fixed deposit accounts	1,572,078	541,494	352,255	1,964	-	2,467,791
Borrowings	571,748	8,984	83,936	178,610	149,923	993,201
Debentures	-	102,354	-	-	-	102,354
Paid up and subscription savings	417,053	-	-	-	-	417,053
Total liabilities	**2,560,879**	**652,832**	**436,191**	**180,574**	**149,923**	**3,980,399**
Net interest sensitivity gap	**1,648,874**	**(327,985)**	**(434,118)**	**(177,989)**	**(127,487)**	**581,295**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

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**
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)**

Capital risk

The policy framework represents the capital management approach to be followed by BBSL to ensure alignment with the principles of the Internal Capital Adequacy Assessment Process (ICAAP) detailed by the Bank of Botswana. The purpose of the Capital Management Framework is to provide a clearly defined, documented and mandatory approach and principles in the capital planning process. As indicated throughout this document, Capital is managed by BBSL through the use of target capital ranges set above the regulatory minimum thereby creating a buffer. The size of the buffer is derived from stress testing to ensure the capital base can sustain unforeseen events affecting the company's's capital base or risk weighted assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42.Financial instruments and risk management (continued)

Capital Management

To monitor the adequacy of its capital, the Company uses ratios prescribed by Bank of Botswana, per the Basel Capital Adequacy Framework (Basel II).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 (risk weighted assets).

For prudential 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 sustain growth for the business.

The company has complied with regulatory capital requirements. The ratio was 24.50% as at 31 December 2019,(31 December 2018: 28.40%) the minimum capital adequacy ratio set by Bank of Botswana was 15% at the reporting date.

	2019	2018
Capital base	**P'000**	**P'000**
Stated capital	487,453	487,014
Other revenue reserves	82,337	108,528
Regulatory adjustment	(16,522)	(15,860)
Tier I capital	**553,268**	**579,682**
Unpublished current year's losses	(35,759)	(26,193)
Collective impairment	4,651	7,726
Tier II capital	**(31,108)**	**(18,467)**
Total capital	**522,160**	**561,215**
Risk weighted assets		
Credit risk weighted assets	1,986,226	1,824,048
Operational risk weighted assets	144,642	152,225
Total risk weighted assets	**2,130,868**	**1,976,273**
Capital adequacy ratio	24.50 %	28.40 %
Regulatory requirement	15 %	15 %

Business and Strategic Risk

Strategic risks can be defined as the uncertainties and untapped opportunities embedded in BBSL's strategic intent and how well they are executed. Strategic risks may arise from making poor business decisions, from the poor execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment. Strategic Risk Management (SRM) is a process performed by management for identifying, assessing and managing risks and uncertainties, affected by internal and external events, scenarios and risks that could impede the Company's ability to achieve its strategy and strategic objectives.

42. Financial instruments and risk management (continued)

Business and Strategic Risk (continued)

Business risk is the possibility that the Company will have lower than anticipated profits or experience a loss rather than achieving a profit. Business risk is influenced by numerous factors, including sales volumes, pricing, cost of funds, competition, the overall economic climate and government regulations.

The Business and Strategic Risk Control Framework sets out the governance, controls, policies, guidance and procedures for the management of the risk. This framework is in support of the Operational Risk and Enterprise-wide Risk Management (ERM) policies which require a robust risk control and reporting framework to be in place to ensure that the associated risk is managed effectively, and to enable the Board to assess the Company's compliance with these policies. The Projects and Strategy Department is required to implement and comply with the requirements of the document and should retain evidence to support this compliance.

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.

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

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

Such incidents include:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Operational risk (continued)

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

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements from appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where there 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 Executive Management and Board Finance and Audit Committee of the Company.

Information Technology (IT) Risk

IT Risk refers to the risk associated with running and changing the IT infrastructure in support of business operations and ongoing strategy. Examples of IT risks includes:

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Information Technology (IT) Risk (continued)

- Non-availability of IT systems;
- Inadequate design & testing of new and changed IT Solutions;
- Inadequate system security as well as Cyber crime security;

IT Risk Management refers to the identification, measurement, management, monitoring and reporting of IT Risk within the Company. The IT Risk Control Framework will enable BBSL to:

- Establish a sound and robust technology risk management framework;
- Strengthen system security, reliability, resiliency, and recoverability; and
- Deploy strong authentication to protect customer data, transactions and systems.

The Company has developed a number of KRIs to monitor IT Risk. The primary responsibility for the management of IT risk resides with the IT Department. The Head of IT is responsible for ensuring that this framework has been embedded.

Business Continuity Management

Business Continuity Management Business Continuity Management (BCM) is a holistic management process that identifies potential impacts that threaten an organisation and provides a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value creating activities.

A comprehensive BCM comprises of the following:

Emergency Response – Procedures that address the initial reaction and activities to ensure the safety of all personnel as well as to work with emergency personnel to minimise or contain the adverse situation;

Crisis Management– Activities aimed at protecting the reputation of the organisation through effective internal and external communication during and after a disaster;

Business Continuity– Activities dealing specifically with the resumption of specific tasks necessary to recover critical functions / processes in the event of a disaster, including personnel, essential records, equipment supplies, work space, communication facilities, work stations, mail services, etc.; and

ICT Continuity – Activities and programmes designed to return the information technology services, which support the business operations, to an acceptable condition and level of operation.

Business resilience is premised on Business Continuity Plans (BCP), which is essentially a collection of procedures and supporting information which must be compiled, developed and maintained. The BCP must facilitate the restoration of critical business processes during or subsequent to a business disruption.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Brand and Reputational Risk Framework

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

The Company considers the considerable financial and reputational benefits to which effective operational risk measurement contributes to:

- Reducing operational risk events and the associated financial losses
- Strengthening the BBSL brand
- Meeting regulatory expectations
- Pro-active management and follow-up of large operational risk events
- Tightening up ineffective controls
- Management of key indicators breaching their thresholds
- Setting operational risk appetite and tolerance levels
- Establishing roles and responsibilities and delegation of authority
- Defining and allocation of ownership of operational risks.

The primary responsibility for the management of Brand and Reputational Risk resides with the Marketing and Communication Department. The Head of Marketing and Communication is responsible for ensuring that this framework has been embedded within the business unit. In addition, all staff have a responsibility for the effective management of this risk and must report appropriately any known breakdowns in control, or any potential exposures that may result in financial or reputational loss.

Legal Risk

Legal risk means any of the following types of risk:

- The risk that the Company's business will not be conducted in accordance with applicable laws and regulations;
- The risk that the Company's contractual arrangements, whether with customers or third parties, will either not be enforceable as intended or may be enforced against the Bank in an adverse way;
- The risk that the Company's intellectual property (such as copyright, trademarks, trade names, domain names, know-how, designs, inventions, patents, trade secrets or processes) will not be legally protected in all jurisdictions where the
- Company does business or is likely to do business;
- The risk that the Company will receive inappropriate or poor legal advice from non-accredited lawyers and/or that the
- Company will have increased legal expenditure in its efforts to manage legal risk; and he risk that the Company's litigation is not managed effectively.

Legal Risk Management refers to the identification, measurement, management, monitoring and reporting of Legal Risk within the Company. The primary responsibility for the management of Compliance Risk resides with the Corporate Services Department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Compliance Risk

Compliance risk is exposure to legal penalties, financial forfeiture and material loss BBSL faces when it fails to act in accordance with laws and regulations governing its operations, internal policies and/or prescribed best practices. The primary responsibility for the management of Compliance Risk resides with the Corporate Services Department. As part of the process of managing Compliance Risk, the Company has a dedicated Compliance Officer who operates with an approved Compliance Risk Universe. The monitoring of Compliance Risk is done mainly using Key Risk Indicators developed within the Risk Department as part of the RCSA process.

Financial Reporting and Taxation Risk

Financial Reporting Risk is the risk that the Company's internal controls over financial reporting may fail to detect a misstatement or omission within the Company's external financial reporting (excluding regulatory reporting) that exceeds Management's risk appetite. The higher this risk is, the more it lowers the price of the assets that depend on the Company's financial health. Financial reporting risk can be pervasive anywhere in the Company and can arise from an event or condition, external and internal factors, and decisions and choices made. Financial reporting risk may also arise from inaction.

Tax Risk is defined as a failure to comply with tax laws and practice (or provide accordingly where appropriate) leading to a financial loss and/or separately a loss of reputation. Financial loss may include unprovided tax charges, unanticipated payments of tax, interest and penalties or missed opportunities. It is accepted that tax risk also relates to lost opportunity cost and that eliminating all downside risk would affect the Company's competitive advantage. Thus, it is necessary to manage the Company's tax risk actively. Reputational risk includes adverse publicity or adverse impact on relationships with regulatory authorities, investors, customers and employees in any of the jurisdictions where the Company conducts its business. Tax risk management is not necessarily about minimising tax risk but rather about a determination of the level of risk that is acceptable to the Company and putting in place processes and procedures that ensure tax risks do not exceed acceptable levels.

The primary responsibility for the management of Financial Reporting and Taxation risk resides with the Finance Department. The Head of Finance is responsible for ensuring that this framework has been embedded within the business unit. In addition, all staff have a responsibility for the effective management of this risk and must report appropriately any known breakdowns in control, or any potential exposures that may result in financial or reputational loss. The monitoring of the risk is done through KRIs agreed with the Risk Department.

People Risk

People are the single most important asset in BBSL but they are also the most vulnerable asset. People Risk encompasses all of the risks BBSL is exposed to by virtue of being an employer. Examples of such risks include the following:

- Lack of appropriate people resources
- Failure to manage performance and reward
- Failure to comply with health & safety requirements
- Failure to comply with labour legislation in Botswana
- Unauthorised/inappropriate activity

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

People Risk (continued)

People Risk Management refers to the identification, measurement, management, monitoring and reporting of People Risk within the Company. A pro-active and strategic approach to managing People Risks will result in the following:

- Improved employee productivity
- Reduced rates of absenteeism
- Improved employee health and wellbeing
- A positive employer brand that helps with attracting new talent
- Increased employee motivation
- Improved employee retention

The Company has developed a number of KRIs to monitor People Risk. The Company also has in place a Board Sub- committee, Human Resources and Remuneration Committee which meets on a quarterly basis. The Committee was established to make recommendations on the compensation, incentives and performance targets of Executive Management as well as other BBSL staff members. In addition,

the Committee reviews and recommends for approval by the Board, the structure and funding levels of any bonus and incentive schemes. The following risks are taken into consideration during the remuneration process:

- Risk of losing employees due to remuneration that is below the market
- Unfair and skewed salary structures; and
- Succession planning for key positions.

Projects Risk

Projects Risk is defined as the implementation of a framework which includes strict governance and robust methodologies supporting the management of major and minor change at BBSL and their associated risks. This framework is supported by change methodologies which provides for a staged approach to change and further indicates accountabilities in terms of roles at all levels.

As projects are a regular part of the Company's business, it stands to reason that they will incur a certain level of risk that the project objectives may not be achieved. Projects Risk Management refers to the identification, measurement, management, monitoring and reporting of Projects Risk within the Company to ensure that project objectives are achieved. The primary responsibility for the management of Projects Risk resides with the Projects Office. The Head of the Projects and Strategy is responsible for ensuring that this framework has been embedded within the business unit.

Implementation of a robust business change lifecycle ensures that projects are managed using a standardised staged approach, called the Business Change Lifecycle (BCL). Depending on the degree of complexity, certainty of design, use of new architectures and repeatability, the BCL may be applied in full or in condensed form, the Significant approach (five separate stages), the Standard approach (four stages) or the Simple approach (three stages). Alternatively, if there is an enhancement to existing systems with no introduction of new functionality the Small Enhancement methodology is applied.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Corporate Sustainability Risk

Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate Sustainability Risk is defined as the failure to consider corporate sustainability drivers (economic, social, environmental) in both strategic and operational decision making and could result in BBSL suffering reputational damage, financial penalties and loss of credibility in the eyes of stakeholders.

The primary responsibility for the management of Corporate Sustainability Risk resides with the Head of Projects and Strategy.

Classification of assets and liabilities

The tables below set out the Company's classfification of assets and liabilities and their fair values.
The primary responsibility for the management of Corporate Sustainability Risk resides with the Head of Projects and Strategy.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Classification of assets and liabilities(continued)

31 December 2019 liabilities	Note	At amortised Cost P'000	FVTPL P'000	FVTOCI P'000	Other non-financial assets/ P'000	Current assets and liabilities P'000	Non current assets and liabilities P'000	Total carrying amount P'000	Fair value P'000
Cash and cash equivalents	3	51,819	-	-	-	51,819	-	51,819	51,819
Investments with banks	4	936,441	-	-	-	936,441	-	936,441	936,441
Other assets	5	14,847	-	-	9,036	10,025	13,857	23,882	20,686
Short-term loans and advances to customers	6	60,862	-	-	-	17,589	43,274	60,863	60,863
Mortgage loans and advances to customers	8	3,401,231	-	-	-	471,239	2,929,992	3,401,231	3,877,983
		4,465,200	**-**	**-**	**9,036**	**1,487,113**	**2,987,123**	**4,474,236**	**4,947,792**
Customers' savings and fixed deposit accounts	12	2,467,791	-	-	-	1,618,099	849,692	2,467,791	2,536,873
Paid up and subscription savings - Non-current portion	13	417,057	-	-	-	-	417,057	417,057	417,057
Borrowings	15	993,201	-	-	-	304,114	689,087	993,201	1,250,633
Debentures	16	102,354	-	-	-	6,565	95,789	102,354	103,086
Accounts payables	18	6,828	-	-	82,085	88,913	-	88,913	88,913
		3,987,231	**-**	**-**	**82,085**	**2,017,691**	**2,051,625**	**4,069,316**	**4,396,562**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42.Financial instruments and risk management (continued)

Classification of assets and liabilities(continued)

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
Cash and cash equivalents	3	79,530	-	-	-	79,530	-	79,530	79,530
Investments with banks	4	514,365	-	-	-	514,365	-	514,365	514,365
Other assets	5	13,903	-	-	15,200	5,582	23,536	29,118	27,576
Short-term loans and advances to customers	6	77,297	-	-	-	27,622	49,675	77,297	77,297
Mortgage loans and advances to customers	8	3,197,561	-	-	-	463,927	2,733,634	3,197,561	3,670,199
		3,882,656	**-**	**-**	**15,200**	**1,091,026**	**2,806,845**	**3,897,871**	**4,368,967**
Customers' savings and fixed deposit accounts	12	1,764,252	-	-	-	1,100,042	664,210	1,764,252	1,767,973
Paid up and subscription savings - Non-current portion	13	405,412	-	-	-	-	405,412	405,412	405,412
Borrowings	15	1,127,033	-	-	-	329,287	797,746	1,127,033	1,127,033
Debentures	16	102,205	-	-	-	6,565	95,640	102,205	102,205
Accounts payables	18	13,195	-	-	48,821	62,015	-	62,015	62,015
		3,412,097	**-**	**-**	**48,821**	**1,497,909**	**1,963,008**	**3,460,917**	**3,464,638**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

Categories of financial instruments

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 hierachy into which each fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2019	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
		P'000	**P'000**	**P'000**	**P'000**
Short-term loans and advances to customers	6	-	-	60,862	60,862
Mortgage loans and advances to customers	8	-	-	3,401,231	3,401,231
Other assets - staff debtors	5	-	-	14,613	14,613
		-	**-**	**3,476,706**	**3,476,706**
Liabilities					
Customers' savings and fixed deposit accounts	12	-	2,467,791	-	2,467,791
Total		**-**	**2,467,791**	**-**	**2,467,791**

NOTES TO THE FINANCIAL STATEMENTS (continued)

42. Financial instruments and risk management (continued)

31 December 2018	Note	Level 1	Level 2	Level 3	Total
Assets					
		P'000	P'000	P'000	P'000
Short-term loans and advances to customers	6	-	-	77,297	77,297
Mortgage loans and advances to customers	8	-	-	3,197,561	3,197,561
Other assets - staff debtors	5	-	-	13,502	13,502
Total		**-**	**-**	**3,288,360**	**3,288,360**
Liabilities					
Customers' savings and fixed deposit accounts	12	-	1,764,252	-	1,764,252
Total		**-**	**1,764,252**	**-**	**1,764,252**

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

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 31 December 2019 P'000	Loans and advances to customers 31 December 2018 P'000
Balance at beginning of the year	**1,127,033**	**1,175,740**
Receipt of borrowed funds and debt securities	30,000	120,000
Repayment of borrowed funds and debt securities	(163,832)	(170,590)
Receipt of borrowed funds	**993,201**	**1,125,150**
Other changes		
Interest expense	88,200	62,300
Interest paid	(88,200)	(60,417)
Total liability related other changes	-	1,883
Balance as at year end	**993,201**	**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.

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