BBS Limited
Basel II Pillar III disclosure for the Period ended 31 December 2018

Contents

1 The 2018 BBS Limited Pillar III disclosure report covers the period 1 April 2018 to 31 December 2018

On 28 January 2015 the Basel Committee on Banking Supervision ("BCBS") issued revised Pillar III disclosure requirements (“the revised Pillar III disclosures”). The Bank of Botswana (“BoB”) has taken cognisance of the revised Pillar III disclosures and on 8 September 2015 the Bank of Botswana issued the Guidelines on the revised international convergence of capital measurement and capital standards for Botswana (Basel II) ("the guidelines"). The disclosure templates contained within the guidelines became effective in Botswana on 1 January 2016 and have been adopted by BBS Limited (‘the Company”) within this disclosure report.

The Pillar III disclosure requirements as adopted by BBS Limited are governed by the directives issued by the BoB and include qualitative and quantitative tables for all risk applicable.

The revised Pillar III disclosures format has been generated for the first time based on 31 March 2016 data. The approach is consistent with guidance provided by the BoB.

The BCBS has consulted further on Pillar III in a document titled: “Pillar III disclosure requirements - consolidated and enhanced framework - consultative document” (March 2016) and have issued “Frequently asked questions on the revised Pillar 3 disclosure requirements” (August 2016). The Company has and will consider these proposed requirements and frequently asked questions for future Pillar III publications when the required disclosures become applicable to the Company.

2 Board approved disclosure policy

The Board of Directors ("the Board") of BBS Limited ("the Company" or "BBSL") recognises that effective communication is integral in building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders. The purpose is to help these stakeholders make meaningful assessments and informed investment decisions about the Company.

The Company endeavors to:

- present a balanced and understandable assessment of its position by addressing material matters of significant interest and concern;
- highlight the key risks to which it considers itself exposed and its responses to minimise the impact of the risks; and
- show a balance between the positive and negative aspects of the Company's activities in order to achieve a comprehensive and fair amount of performance.

The Board appreciates the importance of ensuring an appropriate balance in meeting the diverse needs and expectations of all the Company's stakeholders and building lasting relationships with them. The Company has developed a framework to ensure that it complies with all relevant public disclosure obligations and to uphold the Board's communication and disclosure philosophy.

All public announcements and releases; annual, interim and quarterly disclosures are reviewed by Senior Management and recommended for approval by the Board prior to their release. The reports go through a rigorous review and sign-off process by the Board, Executives, Management, Internal and External audit.

On an annual basis, the Company Secretarial, Finance, The Executive, Board Sub Committees (where applicable) and Board will assess the appropriateness of all information that is publicly disclosed.

The Pillar III disclosures provided are in line with the requirements of the guidelines as issued by the Bank of Botswana.

As at **31 December 2018**, the board is satisfied that:

- The information provided in this report was subject to the same level of internal review and internal control processes as the information provided for financial reporting purposes.
- Disclosures on this report have been prepared in accordance with the Board agreed internal control processes related to public disclosures.

Ms. Pelani D. Siwawa-Ndai

Board Chairperson

3 Risk Management

3.1 Introduction

The Company manages the enterprise wide risks assumed through the Risk Department. The Company has adopted the Basel II Risk Management Framework for the management of risks it is exposed to. Adoption of this approach is also intended to enhance the Company's management of its capital. The Company is currently exposed, but not limited to the following risks from its use of financial instruments:

- Capital risk
- Credit risk
- Counter party credit risk
- Operational risk
- Liquidity risk

The quantitative and qualitative disclosures of these risks are further disclosed in section 4 of this document.

3.2 Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board is supported by various sub-committees in the execution of its fiduciary duties and oversight of risk.

The Board Sub-Committees and Board convene on a quarterly basis. The Board comprises of five non-executive directors and one executive director.

The Company has in place an enterprise-wide risk framework to ensure alignment to Basel II as well as ensuring that the Company meets best risk management practices.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The following committees and departments assist the risk management department in fulfilling its duties:

- Operational Risk Management Committee
- Assets and Liabilities Committee ("ALCO")
- Credit Approvals Committee ("CAC")
- Global Credit Risk Management Committee ("GCRMCO")
- Enterprise Risk Management
- Compliance Department
- Internal Audit Department ("IA")

Definition of enterprise risk management

Enterprise risk management is the process, effected by the Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk targets, appetite and threshold, to provide reasonable assurance regarding the achievement of entity objectives.

The following principles are adopted by the Company:

- A sound risk governance culture has to be fostered in all business units covering identification, managing and reporting of risks.
- Policies, standards, procedures and systems will be continuously developed to maintain and enhance the management of risk.
- Business units accept accountability for the identification, management, measurement and reporting of risks. Enterprise risk management is responsible for policy improvement, providing guidance in terms of best practice, ensuring consistent implementation within the Company, developing risk profiles and reporting of material exposures or trends to the business, board and regulatory authorities.
- The Basel II and III principles are applied when identifying, managing, monitoring and reporting risks as well as calculating regulatory capital.
- All risk categories are managed within acceptable levels on a cost effective basis (cost of risk management does not exceed the reward).

The Company's risk management strategy is to embed a risk culture and support business units within the Company. The key focus is to ensure that business units operate within risk parameters which will lead to sustainable business and enhanced risk management practices. The Company's management approach is an approved enterprise-wide risk management methodology and philosophy to ensure adequate and effective risk management. In addition, the methodology also provides regulatory principles and a risk management approach that ensures the following core principles are met:

- Clear assignment of responsibilities and accountabilities;
- Common enterprise-wide risk management framework and process;
- The identification of uncertain future events that may influence the achievement of business plans and strategic objectives; and
- The integration of risk management activities within the Company.

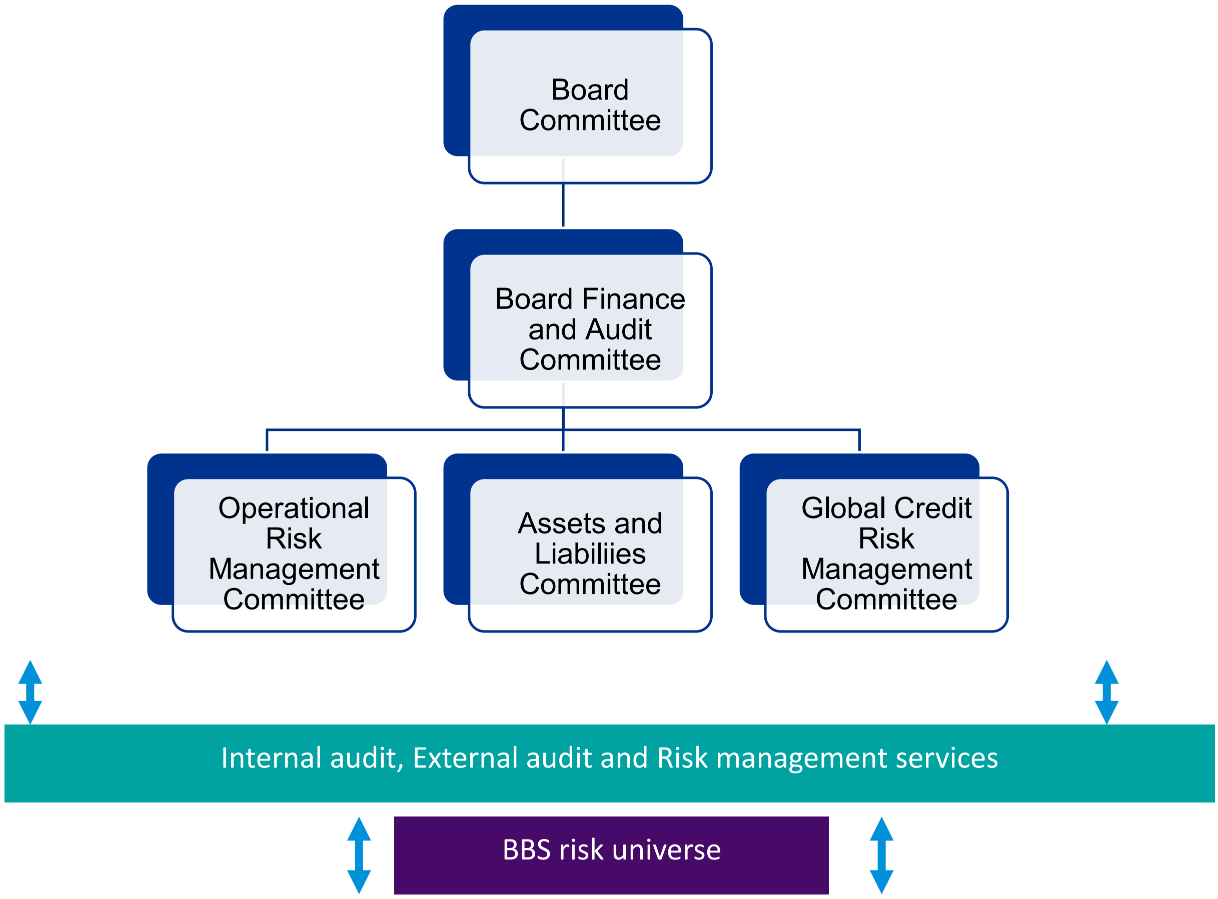
The Company's risk management objective is to ensure a proactive identification, understanding and assessment of risks, including activities undertaken that result in risks which could impact on business objectives. This is executed through various risk management and governance mechanisms and risk management oversight bodies.

3.3 Reporting of risk

The Board has overall responsibility for risk management and delegates the oversight responsibility for risk management to the Finance and Audit Committee. The Company utilizes and firmly applies a holistic and integrated risk management approach. Included in the risk management mechanisms is the principle of "three levels of defense". Business units and risk management services, together with internal and external audit, participate in the holistic approach to risk management. Each business unit is responsible for its own risk management and the reporting of its risk profile i.e. assessment, monitoring, control or mitigation and corrective action. Policies to address areas of non-compliance must be an agenda item of the Operational Risk Management Committee. In partial fulfilment of that responsibility, the Board approves the overall business strategy, which includes the overall risk policy and management of procedures.

3.4 Risk appetite policy

All risks faced by the Company are reviewed on an annual basis and the major groups of risks (before and after the application of mitigating controls) are set out and described below. Management of the business units and the Company's board are satisfied that these risks are being managed adequately to ensure that the desired outcome is achieved. The diagram below depicts the risk universe faced by the Company, as well as the appropriate level of role and responsibility associated with the specific risk.



Accounting and taxation	Liquidity (concentration)	Market	Business continuity	People and transformation
Compliance	Capital	Operational	Reputational	Social and environmental
New Business	Interest rate	Information technology	Credit (counterparty)	Logistics and merchandising

Through a holistic and integrated risk management approach the Company has included in the risk management mechanisms a principle of "three levels of defense". Business units and risk management services, together with internal and external audit, participate in the holistic approach to risk management.

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the Company is willing to accept in pursuit of its strategy, duly set and monitored quarterly by Senior Management and the Board. Risk appetite is integrated into the strategy, business, risk and capital management plans.

Principals of materiality of disclosures

As a general rule the 'materiality threshold' the Company applies in its day to day business and risk management is a conservative one, aligned with International Financial Reporting Standards (IFRS) which are used by our External Auditors, endorsed by our Finance and Audit Committee.

The disclosure requirements under Pillar III are met by the existing accounting disclosure requirement under International Financial Reporting Standards as there are currently no differences between the Annual Financial Statements and the regulatory scope of consolidation. The materiality, frequency and format of disclosures are prescribed by the BoB, taking into the account the circumstances prevailing in Botswana. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information. Thus, materiality provides a threshold or cut-off point, rather than being a primary qualitative characteristic which information must have if it is to be useful'.

The Company's risk appetite culture is inherently conservative. We measure and express risk appetite in terms of quantitative risk metrics and qualitatively. The quantitative metrics include earnings at risk (EaR) (or earnings volatility) and related to this, the 'chance of regulatory insolvency', 'chance of experiencing a loss' and economic capital adequacy. These comprise our 'risk appetite metrics'. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (e.g. Credit, Market and Asset and Liability Management ("ALM") risks.

It is established with reference to the strategic objectives and business plans of the Company, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios.

Qualitatively, we also express risk appetite in terms of policies, procedures, statements and controls meant to limit risks that may or may not be quantifiable.

The Company's risk appetite is defined across five broad categories as set out in our board approved Risk Appetite Framework, namely:

- Core risk appetite metrics;
- Specific risk-type target setting (clarifying across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale);
- Stakeholder targets (such as target debt rating for economic capital adequacy and dividend policy);
- Policies, procedures and controls; and
- Zero-tolerance statement

3.5 Salient highlights for the period

Change in financial period end

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

Accounting standards issued and effective

The Company has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 April 2018. The timing or amount of the Company's fee and commission income form contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements. IFRS 9 standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Financial performance

The gross loans and advances portfolio totals P3.362 billion and comprises mortgage loans and advances at P3.283 billion and short loans advances at P78.999 million. Past due mortgage loans and non-performing loans amount to P546.046 million and P321.799 million respectively, of the gross amount. The allowance for specific impairment was P78.105 million and the allowance for general impairment was P7.726 million.

The balance sheet size is P4. 031 billion of which P514.4 million is fixed deposits with other banks. The fixed deposits with banks decreased by P263.553 million from P777.918 million recorded in 31 March 2018 to P514.365 million recorded in 31 December 2018. Capital position was P561.217 million against risk weighted assets (RWAs) of P1.976 billion.

Section 4:

Disclosure: Detailed Quantitative and Qualitative Disclosures of Risk Types

4 Disclosure: Detailed quantitative and qualitative disclosures of risk types

4.1 Scope of application – Regulatory consolidation

4.1.1 Qualitative disclosure

The Company is a standalone entity hence the quantitative disclosures to follow applies to the Company only. There are no differences in the basis of consolidation for accounting and regulatory purposes.

4.1.2 Quantitative disclosure

The table below reflects the reconciliation between the Annual Financial Statements and the regulatory scope of consolidation.

Table 1: Expanded Regulatory Balance Sheet

	Balance sheet	Under regulatory scope of consolidation	Balance sheet	Under regulatory scope of consolidation
	As at December 2018	**As at December 2018**	**As at March 2018**	**As at March 2018**
	P'000	**P'000**	**P'000**	**P'000**
Assets				
Cash and balances at central banks	79,530	79,530	81,008	81,008
Items in the course of collection from other banks	-	-	-	-
Trading portfolio assets	-	-	-	-
Financial assets designated at fair value	-	-	-	-
Derivative financial instruments	-	-	-	-
Loans and advances to banks *(Investments with banks)*	514,365	514,365	777,918	777,918
Loans and advances to customers	3,274,858	3,274,858	3,186,492	3,186,492
Reverse repurchase agreements and other similar secured lending	-	-	-	-
Available for sale financial investments	-	-	-	-

Current and deferred tax assets	-	-	-	-
Prepayments, accrued income and other assets *(includes PIP)*	38,308	38,308	35,478	35,478
Investments in associates and joint ventures	-	-	-	-
Goodwill and intangible assets		-		-
of which goodwill	-	-	-	-
of which other intangibles (excluding MSRs)	26,433	26,433	29,227	29,227
of which MSRs	-	-	-	-
Property, plant and equipment	97,770	97,770	96,714	96,714
Total assets	**4,031,264**	**4,031,264**	**4,206,837**	**4,206,837**
Liabilities				
Deposits from banks	-	-	-	-
Items in the course of collection due to other banks	-	-	-	-
Customer accounts	2,169,664	2,169,664	1,801,996	1,801,996
Repurchase agreements and other similar secured borrowings	1,127,033	1,127,033	1,175,740	1,175,740
Trading portfolio liabilities	-	-	-	-
Financial liabilities designated at fair value	-	-	-	-
Derivative financial instruments	-	-	-	-
Debt securities in issue *(Debentures)*	102,205	102,205	-	-
Accruals, deferred income and other liabilities	62,184	62,184	68,813	68,813
Current and deferred tax liabilities	827	827	2,698	2,698

Of which DTLs related to goodwill	-	-	-	-
Of which DTLs related to intangible assets (excluding MSRs)	-	-	-	-
Of which DTLs related to MSRs	-	-	-	-
Subordinated liabilities	-	-	-	-
Provisions	-	-	-	-
Retirement benefit liabilities	-	-	-	-
Total liabilities	**3,461,913**	**3,461,913**	**2,560,183**	**2,560,183**
Shareholders' Equity				
Paid-in share capital				
of which amount eligible for CET1 CAPITAL (Ordinary shares/ Indefinite shares)	487,014	487,014	945,716	945,716
of which amount eligible for AT1	-	-	-	-
Retained earnings	(31,000)	(31,000)	23,412	23,412
Accumulated other comprehensive income	113,437	113,437	188,462	188,462
Total shareholders' equity	**4,031,264**	**4,031,264**	**4,206,837**	**4,206,837**

4.2 Regulatory capital and requirements

4.2.1 Qualitative disclosures

To monitor the adequacy of its capital, the Company uses ratios established by the BoB which measure capital adequacy by comparing the Company's eligible capital with its reported assets and commitments at weighted amounts to reflect their relative risk. The regulator has advised all financial institutions to ensure that capital requirements are based on the Basel II framework. The Company started complying with Basel II reporting requirements in January 2016.

The table below shows a summary of the minimum regulatory capital requirements.

Table 2: Capital Adequacy Requirements (all numbers in percent)

	Common Equity Tier1	Additional Tier I	Tier I Capital	Tier II Capital	Total Capital
Minimum	4.5	3	7.5	7.5	15

Table 3: Basel II Common Equity Tier I Disclosure

Basel III Common Equity Tier I Disclosure		
		P'000
Common Equity Tier I capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	487,014
2	Retained earnings	(31,100)
3	Accumulated other comprehensive income (and other reserves)	113,437
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	**Common Equity Tier I capital before regulatory adjustments**	**569,351**
	Common Equity Tier I capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	(15,860)
28	Total regulatory adjustments to Common equity Tier I	(15,860)
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**553,491**
	Additional Tier I capital: instruments	
30	Directly issued qualifying Additional Tier I instruments plus related stock surplus	
31	of which: classified as equity under applicable accounting standards	
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier I	
34	Additional Tier I instruments (and CET1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier I capital before regulatory adjustments	
	Additional Tier I capital: regulatory adjustments	
37	Investments in own Additional Tier I instruments	
38	Reciprocal cross-holdings in Additional Tier I instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	

40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier I due to insufficient Tier II to cover deductions	
43	Total regulatory adjustments to Additional Tier I capital	
44	Additional Tier I capital (AT1)	
45	**Tier I capital (T1 = CET1 CAPITAL + AT1)**	**553,491**
	Tier II capital: instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier II	
48	Tier II instruments (and CET1 CAPITAL and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	7,726
51	**Tier II capital before regulatory adjustments**	**7,726**
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	
53	Reciprocal cross-holdings in Tier II instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	
	Significant investments in the capital banking, financial and insurance entities that are outside the scope of	
55	regulatory consolidation (net of eligible short positions).	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier II capital	
58	**Tier II capital (T2)**	**7,726**
59	**Total capital (TC = T1 + T2)**	**561,217**
60	**Total risk-weighted assets**	**1,976,273**
	Capital ratios and buffers	
61	**Common Equity Tier I (as a percentage of risk weighted assets)**	28.00%
62	**Tier I (as a percentage of risk-weighted assets)**	28.00%
63	**Total capital (as a percentage of risk weighted assets)**	28.40%
64	Institution specific buffer requirement (minimum CET1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
65	of which: capital conservation buffer requirement	
66	of which: bank specific countercyclical buffer requirement	
67	of which: G-SIB buffer requirement	
	Common Equity Tier I available to meet buffers (as a percentage of risk weighted assets)	
	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	
70	National Tier I minimum ratio (if different from Basel III minimum)	
71	National total capital minimum ratio (if different from Basel III minimum)	
	Amounts below the thresholds for deduction (before risk-weighting)	
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier II	
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardized approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier II under standardized approach	

78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)
79	Cap for inclusion of provisions in Tier II under internal ratings-based approach
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)
80	Current cap on CET1 CAPITAL instruments subject to phase out arrangements
81	Amount excluded from CET1 CAPITAL due to cap (excess over cap after redemptions and maturities)
82	Current cap on AT1 instruments subject to phase out arrangements
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)
84	Current cap on T2 instruments subject to phase out arrangements
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)

Regulatory capital is divided into three main categories, namely common equity tier 1 ("CET1"), tier 1 and tier 2 capital as follows:

- Common equity tier 1 capital comprises shareholders' equity and related eligible non-controlling interest after giving effect to deductions for disallowed items (e.g. goodwill and intangible assets) and other adjustments. CET1 Capital must be at least 4.5% of risk-weighted assets, at all times.
- Additional tier 1 capital includes qualifying capital instruments that are capable of being fully and permanently written down or converted into common equity tier 1 capital at the point of non-viability of the firm and other additional tier 1 instruments, which no longer qualify as additional tier 1 capital and are subject to grandfathering provisions and related eligible non-controlling interest. The tier I capital ratio shall be calculated as the adjusted Tier I capital, divided by the total risk-weighted assets of the Company. The Tier I capital ratio must be at least 7.5% of risk-weighted assets at all times.
- Tier 2 capital comprises qualifying subordinated debt and related eligible non-controlling interests and other tier 2 instruments, which no longer qualify as tier 2 capital and are subject to grandfathering provisions. Total capital (tier 1 capital plus tier II capital) to risk-weighted assets must be at least 15% of risk-weighted assets at all times.

For prudential supervisory purposes prior to conversion, Tier 1 capital consisted of indefinite period shares together with the general, statutory and retained earnings reserves. After conversion the indefinite period shares were replaced by ordinary shares. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain growth of the business. The objective is to strike a balance between the higher returns that might be possible with greater earnings and the advantages and security afforded by a sound capital position. The Company is required to hold certain amounts of permanent capital (Ordinary shares) as a proportion of borrowings as per Section 41 of the Building Societies Act. The Company operates the business of a building society as a result the capital adequacy ratio historically was high due to the requirements of the Building Societies Act (Section 41) which requires BBSL to hold certain amounts of permanent capital (Ordinary shares) as a proportion of borrowings.

For the purpose of calculating capital adequacy ratio, the Ordinary shares make up the permanent share capital.

4.2.2 Quantitative disclosure

The table below reflects the breakdown of the Company's capital and reserves and is in a prescribed format as per the guidelines of the BoB.

The composition of BBS Limited RWAs are as follow:

Table 4: Composition of RWA as at 31 December 2018

	Balance	Weighting	Weighted Balance
	P '000		**P '000**
Cash	5,080	0%	-
Other cash balances	74,450	20%	14,890
Fixed deposits with banks	514,365	20%	102,873
Properties In Possession	9,190	50%	4,595
Short term loans and advances to customers	77,297	0%	-
Residential loans secured	2,509,531	35%	878,336
Residential loans (unsecured portion over 90%)	79,049	75%	59,287
Past due for more than 90 and specific provision is less than 20% of loan	245,359	100%	245,359
Past due for more than 90 and specific provision is more than 20% of loan	73,270	50%	36,635
Commercial loans	246,668	100%	246,668
Past due exposure where specific provision is less than 20% of the loan.	34,627	150%	51,941
Past due exposure where specific provision is equal to or greater than 20% but less than 50% of the loan.	7,125	100%	7,125
Past due exposure where specific provision is equal to 50% or more of the loan.	1,932	50%	966
Intangible assets	26,433	100%	26,433
Property and equipment	97,770	100%	97,770
Other assets - staff loans	29,118	100%	29,118
Off-Balance sheet Commitments @ a conversion rate of 20%	110,259	20%	22,052
Credit Risk Weighted Assets			**1,824,048**
Operational Risk Weighted Assets			**152,225**
Total Risk Weighted Assets			**1,976,273**
Capital Adequacy Ratio			**28.40%**
Regulatory Requirement			**15.00%**

4.3 Credit risk

4.3.1 Qualitative disclosures

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. Credit risk arises principally from the Company's loans and advances to customers, balances with banks and investments in debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligator default risk and sector risk).

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

The Board of Directors has delegated responsibility for the management of credit risk to Senior Management. The Risk department is responsible for oversight function of the Company's credit risk, which includes the following:

a. 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.

b. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit underwriting unit which reports to the Head of Operations. Commercial 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 Unimpaired capital require approval by the Board of Directors.

c. 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.

d. Limiting concentration of exposure to counterparties, geographies and industries (for loans and advances).

e. 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 provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the Global Credit Risk Management Committee.

f. 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.

g. Reviewing compliance of business units with agreed exposure limits, including those for sector and individual exposure. Reports are provided to the Board every quarter.

h. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

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

• Stage 1: When loans are first recognised, the Company recognises an allowance based on

12months 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 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.

Assets carried at amortized cost

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

Credit impairment

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

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

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

Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income.

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

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

No impairment loss is recognised on equity investments.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive over the contractual life of the instrument.
Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

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

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

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

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.

Recognition

12 months expected credit losses (Stage 1)

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

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

Significant increase in credit risk (Stage 2)

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

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

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

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

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

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

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

The triggers underlying significant increase in credit risk (SICR) relates to all factors that will move an account from Stage 1 to Stage 2. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increase in credit risk since initial recognition. SICR can be established based on qualitative triggers or a quantitative assessment. Currently, no measures have been developed to quantitatively measure SICR. This is because the underlying supporting information required to do so is not 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.

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.

Past due but not impaired loans

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

Non-performing loans

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

Allowances for impairment

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

Write-off policy

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

Based on its past due status, loan balances are classified as either, special mention, substandard, doubtful or loss;

Special mention

Included in the category of special mention are credit exposures in respect of which the obligator is experiencing difficulties that may be a threat to the Company's Position. Ultimate loss is not expected, but may occur if adverse conditions persists. Loans and advances past due more than 30 days are classified as special mention.

Substandard

Any credit exposure that reflects an underlying, well defined weakness that may lead to probable loss if not corrected should be included in the category of substandard. The risk that such credit exposure may become an impaired asset is probable, and the Company is relying, to a large extend, on available security.

The primary source of repayment is insufficient to service the remaining contractual principal and interest amounts, and the Company has to rely on secondary sources for repayment, which secondary sources may include collateral, the sale of fixed assets, refinancing and further capital. Loans and advances past due more than 60 days are classified as substandard.

Doubtful

Credit exposure in the category of doubtful is considered to be impaired, but is not yet considered final loss due to some pending factors, such as a merger, new financing or capital injection, which factors may strengthen the quality of the relevant exposure.

Doubtful credit exposures exhibit not only all the weaknesses inherent in the credit exposures classified as substandard but also have the added characteristics that the said exposures are not duly secured. The said weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is high, but due to certain important and reasonably specific factors that may strengthen the asset, the classification of the asset as an estimated loss is deferred until a more exact status may be determined. Loans and advances past due more than 90 days are classified as doubtful.

Loss

Credit exposures classified as loss are considered to be uncollectable once collection efforts, such as realization of collateral and institution of legal proceedings, have been unsuccessful. The relevant exposures are considered of such little value that the said exposure should no longer be included in the net assets of the Company. Loans and advances that are past due for more than 120 days are classified as loss.

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Company’s quarterly reporting schedule. Some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties including mortgage brokers, housing price indices, audited financial statements and other independent sources.

Main types of 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.

Short term loans

Short term loans are for periods between twelve and sixty months and are secured by shares (being Paid up savings, Subscription savings, Indefinite Period savings, term deposits, Fixed deposits and Lerako savings account.

Quantitative disclosures

The following table represents the breakdown of the credit portfolio of the Company as at 31 December 2018.

Table 5: Quantitative disclosures on credit risk

Expected credit loss allowance Mortgage loans and advances to customers – On Balance Sheet - IFRS 9

	Stage 1	Stage 2	Stage 2	Stage3	31 Dec 2018
	Performing	Performing	Non-performing	Non-performing	Total
	P’000	P’000	P’000	P’000	P’000
Assets at amortised cost individually impaired					
Standard	2 338 276	2 440	-	20 199	2 360 915
Special Mention/ Watch list	260 293		194 662	50 055	505 010
Substandard	-		47 697	47 971	95 668
Doubtful	-		-	122 919	122 919
Loss	-		-	198 880	198 880
Gross carrying amount	**2 598 569**	**2 440**	**242 359**	**440 024**	**3 283 392**
Specific impairment					
ECL impairment allowance	3 481	1 323	2 924	78 103	85 831
	3 481	**1 323**	**2 924**	**78 103**	**85 831**
Net loans and advances	**2 595 088**	**1 117**	**239 435**	**361 921**	**3 197 561**
Impairment (ECL) Coverage Ratio	**2.61%**				
Stage 3 coverage ratio	**17.75%**				

Expected credit loss allowance Mortgage loans and advances to customers – Off Balance Sheet - IFRS 9

	31 Dec 2018			
	Stage 1	Stage 2	Stage3	Total
	P’000	P’000	P’000	P’000
Assets at amortised cost individually impaired				
ECL impairment allowance	**169**	**-**	**-**	**169**

Expected credit loss allowance on loans and advances to Short loans - IFRS 9

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

Expected credit loss allowance on loans and advances to Staff - IFRS 9

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

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

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

4.4 Counterparty credit risk

4.4.1 Qualitative and quantitative disclosures

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Company is currently not exposed to counterparty credit risk.

4.5 Market risk

4.5.1 Qualitative and quantitative disclosures

Market risk is the risk of losses in positions arising from movements in market prices. The Company is currently not exposed to any market risk.

4.6 Operational risk

4.6.1 Qualitative disclosures

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 behavior. Operational risks arise from all of the Company's operations and are faced by all business entities. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restricts initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business unit. The Senior Managers are members of the Operational Risk Management Committee which meets on a quarterly basis to consider the consolidated Operational Risk Report and monitor progress on any outstanding matters.

Operational risk capital charge is calculated using the basic indicator approach and is driven by the levels of income over a three-year average period, applying specific factors applicable to the nature of the business generating the income.

4.6.2 Quantitative disclosures

The following table reflects the capital adequacy requirement as per the prescribed guidelines.

Table 6: Quantitative disclosures of operational risk

	Gross income P'000
Total Gross Income for Year 1	155,777
Total Gross Income for Year 2	170,676
Total Gross Income for Year 3	127,949
Aggregate Gross Income	**454,402**
Operational risk weight assets	**152,225**
Operational Risk Capital Charge: BIA	**22,720**

4.7 Equity risk

4.7.1 Qualitative and quantitative disclosures

Equity risk is the risk that stock or stock indices/prices or their implied volatility will change. The Company is currently not trading in any equity instruments.

4.8 Interest rate risk

4.8.1 Qualitative disclosures

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the cash flows or fair values of financial instruments because of a change in market interest rates. Interest rates are managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard interest rate scenarios. Interest rate movements affect reported equity as increases or decreases in net interest income and the fair value changes are reported in profit or loss. A repricing gap analysis is used to quantify the impact of interest rate changes to accrued or reported earnings. Interest rate-sensitive assets, liabilities and off-balance sheet items are placed in time bands (gap intervals) based on their repricing characteristics.

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.

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.

To estimate earnings exposure, the liabilities in each time band are subtracted from the corresponding assets to produce a repricing ‘gap’ for that time band. This gap can be multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. Note that the analysis is static (i.e. assumes a flat / constant state balance sheet), assumes a parallel shift in rates. The scenarios are run only for assets and liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on pre-tax profit of a shift by 200 basis points would be a maximum increase or decrease of P0.175 million (31 March 2018: P2.594 million) of the same amount respectively. The simulation is done on a monthly basis to verify that the maximum loss potential is within the limit set by Management.

5.1 Quantitative

The following table represents the Company's net repricing gap.

Table 7: Quantitative disclosures of interest risk

At 31 December 2018	0 to 3 months P'000	3 to 12 months P'000	1 to 2 years P'000	2 to 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Assets							
Cash and cash equivalents	74,450	-	-	-	-	-	**74 450**
Fixed deposits with banks	123,108	391,257	-	-	-	-	**514,365**
Short term loans and advances	77,297	-	-	-	-	-	**77,297**
Mortgage loans and advances	3,161,357	724	4,366	950	30,164	-	**3,197,561**
Other assets	13,517	-	-	-	-	-	**13,517**
Total	**3,449,729**	**391,981**	**4,366**	**950**	**30,164**	**-**	**3,877,190**
Liabilities							
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)**

5.2 Liquidity risk

5.2.1 Qualitative disclosures

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company is exposed to daily calls on its available cash resources from deposits, maturing shares and loan draw downs. The Company does maintain cash to meet all these needs as 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 Central Bank which includes the liquidity position. Such a position is reflected through the net liquidity gap which reflects the net exposure of assets versus liabilities per the various time bands on a maturity ladder. A net mismatch figure is obtained by subtracting liabilities from assets in each time band.

5.2.2 Quantitative disclosure

The following table represents the Company's net liquidity gap.

Table 8: Quantitative disclosures of liquidity risk

At 31 December 2018	On demand P'000	1 to 3 months P'000	3 to 12 months P'000	1 to 5 years P'000	Over 5 years P'000	Non-financial instruments 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	**245,844**	**468,489**	**379,802**	**1,825,652**	**3,892,406**	**-**	**6,812,193**
Liabilities							
Customers' savings and fixed deposit accounts	437,146	389,332	273,564	166,986	525,219	-	**1,792,247**

At 31 December 2018	On demand P'000	1 to 3 months P'000	3 to 12 months P'000	1 to 5 years P'000	Over 5 years P'000	Non-financial instruments P'000	Total P'000
Other liabilities	13,194	-	-	-	-	-	**13,194**
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**
Total liabilities	**460 250**	**494,128**	**556,917**	**1,428,159**	**907,351**	**-**	**3,864,805**
Net liquidity gap	**(214,406)**	**(25,639)**	**(177,115)**	**397,493**	**2,985,055**	**-**	**2,965,388**

5.3 Remuneration

5.3.1 Qualitative disclosures

The Company has established the Human Resources and Remuneration Committee ("Committee") to assist the Board of Directors ("Board") in human resources, as well as remuneration related matters.

The Company subscribes to the principle of performance-based rewards and recognises that to achieve strategic business objectives and remain competitive in its human capital practices, it must periodically review its policy on remuneration and reward. To this end this Policy has been revised to modernise the pay practices of the institution in line with local trends and best practice. The Policy now underpins and fully supports the Company's strategies and business plans by enhancing the institution’s employee value proposition for competitiveness in the labor market.

All executive management and employees of the Company are remunerated in the following manner:

- Salaries and wages
- Pension fund contributions or gratuity where applicable
- Medical aid contributions
- Bonus accrual
- Leave pay accrual

All remuneration paid is on fixed basis and no remuneration is deferred except for the gratuity which is payable at the end of the contract or upon termination.

5.3.4 Quantitative disclosures

The Human Resources and Remuneration Committee met five (5) times for the period 1 April 2017 to 31 December 2018. The table below sets out the member of the remuneration committee, number of meetings attended and remuneration received for the period 1 April 2018 to 31 December 2018.

Table 9: Quantitative disclosure of remuneration: Remuneration committee

Member	Number of meetings attended	Remuneration P'000
Mr. M. Tlhagwane	5	30.000
Mr. R. Molosiwa - (Chairman)	6	41.000
Mr. K.N. Monthe	5	30.000

The following table represents the breakdown of BBS Limited's remuneration as at 31 December 2018.

Table 10: Quantitative disclosure of remuneration: Remuneration breakdown

	Executive management P'000	Remainder of staff P'000	Total P'000
Salaries and wages	12,130	32,389	44,519
Pension fund contributions	-	4,100	4,100
Leave pay accrual	103	1,361	1,464
Fair value adjustments – off market staff loan	556	1,757	2,313
Sub total	**12,789**	**39,607**	**52,396**
Post-employment benefits	3,203	-	3,203
Total	15,992	39,607	55,599
Staff complement	10	207	217