

BBS LIMITED

Summarised audited financial statements for the 9 months period ended 31 December 2018



CHAIRPERSON'S REPORT

These summarised financial statements are extracted from the audited information but are not audited. The financial statements for the period ended 31 December 2018 were audited by KPMG, who expressed an unmodified opinion thereon. The audited financial statements for the period ended 31 December 2018 and the Auditor's report thereon is available for inspection at the Company's registered office. The Directors take full responsibility for the preparation of these summarised financial statements and that the financial information has been correctly extracted from the financial statements. The Auditor's report does not necessarily report on all of the information contained in these summarised financial statements. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the Auditor's engagement, they should obtain a copy of the Auditor's report together with the accompanying financial information from the Company's registered office or on our BBSL website.

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

We have put in place measures such as monitoring our core banking system on a daily basis as a way of identifying any irregularities. We also voluntarily withdrew our banking licence application from the Bank of Botswana in October 2019 to enable us to resolve the system challenges. We now anticipate resubmitting the banking licence

application during the last quarter of 2020. In the meantime, preparatory work to operate as a commercial bank is ongoing.

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

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

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

Financial performance

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

The results for the period ended December 2018 is a loss of P26.191 million relative to a profit of P49.941 million achieved in March 2018. I must point out that the loss is not because of poor performance but a

change in BBSL's capital structure following its conversion to a company on 26 April 2018 as well as the effects of the implementation of IFRS 9 *Financial Instruments*. The Indefinite period shares were converted to a savings product and earn interest expense as opposed to dividends. IFRS 9 also requires that the provision be calculated on expected loss as opposed to incurred loss and one has to take into account forward-looking information before it impacts the business.

Nonetheless, we achieved a growth of 3.18% in loans and advances from P3.099 billion in March 2018 to P3.197 billion in December 2018. Total savings and deposits increased from P1.802 billion in the last financial year to P2.170 billion in December 2018, representing a movement of P367.668 million or 20%.

Despite the above performance, I would like to assure you that BBS Limited remains a very strong institution financially. With a capital adequacy ratio of 28.40% in December 2018, BBS Limited has more than adequate capital, much higher than the threshold of 15% as outlined in the Banking Act.

Way forward

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

Ms. Pelani D. Siwawa-Ndai
Board Chairperson

SUMMARISED AUDITED STATEMENT OF FINANCIAL POSITION at 31 December 2018

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

SUMMARISED AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the period ended 31 December 2018

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

PERFORMANCE HIGHLIGHTS for the period ended 31 December 2018



MANAGING DIRECTOR'S REPORT



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

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

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

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

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

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

In addition, we are also working on developing a new Head Office at our plot in the new Central Business District in Gaborone. The property is ideally located on the corner of Molepolole Road and New Lobatse Road, otherwise known as the "Phase 2 traffic lights". Therefore, we intend building a Head Office that will not only be easy on the eye architecturally but also give the BBS Limited brand the desired lift.

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

The return on average equity ratio improved from 17% in March 2018 to 19% in December 2018.

We maintain a strong capital base with a capital adequacy ratio of 28.40% for the period ended December 2018.

The liquid assets to total customer deposits ratio was 27% as at December 2018 much higher than the 10% limit set by the central bank.

We recorded an improvement in the Loans to Deposit ratio of 151% as at December 2018 from 177% in March 2018. This was due to the growth in our deposit balances. We continued to work hard to increase our deposit base in order to reduce this ratio further and to meet the regulatory limit of 80%.

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

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

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

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

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

Of, course, we continued to support a number of community initiatives financially during the year such as the Albinism Society of Botswana, Sir Ketumile Masire Foundation, Kalahari Conservation Society and Letswai Primary School.

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

Mr. Pius K. Molefe
Managing Director

SUMMARISED AUDITED STATEMENT OF CHANGES IN EQUITY
for the period ended 31 December 2018

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

SUMMARISED AUDITED STATEMENT OF CASH FLOWS
for the period ended 31 December 2018

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

DIRECTORS' REPORT

for the 9 months period ended 31 December 2018

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

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

Business activities

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

Change in financial period end

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

Financial results and position

The Company's financial results and position are reflected in the financial statements set out on pages 19 to 112. The Company realised a 43% decrease in operating income from P193 million for the year ended 31 March 2018 to P110 million for the current period. A loss of P26 million was realised during the current period compared to a profit of P50 million for the year ended 31 March 2018.

Stated capital

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

Directors' interest

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

Dividends

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

Board of Directors as at 31 December 2018

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

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

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

Registered address

Plot 13108-112
Broadhurst
Gaborone, Botswana

Auditors

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

Delays in issuance of the financial statements

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

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

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

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

Events occurring after the reporting date

Trading of shares

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

Banking licence application

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

COVID-19 pandemic

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

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

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


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


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

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the financial statements

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


Ms. Pelani D. Siwawa-Ndai
Board Chairperson


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