

BBS LIMITED

Summarised Audited Financial Statements for the year ended 31 December 2019

CHAIRPERSON'S REPORT

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

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

Overview of performance

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

- Total balance sheet increased by 15% from P4.031 billion recorded as at December 2018 to P4.626 billion as at end of December 2019.
- Mortgage loans and advances rose from P3.197 billion to P3.401 billion, representing an increase of 6%.
- Total savings and deposits grew by 33% from a balance of P2.170 billion as at 31 December 2018 to P2.885 billion as at 31 December 2019.
- The Company recorded a loss of P35.761 million for the 12-months to December 2019 compared to a loss of P26.191 million which was recorded for the 9-month period between April 2018 and December 2018.

- BBS Limited continues to maintain a strong capital base; as at 31 December 2019 the capital adequacy ratio stood at 24.50%.

- The cost-to-income ratio for the period was recorded at 116%.

This is very high relative to financial industry norms. However, it didn't come as a surprise to us as we knew that during the transition period, we would experience an increase in costs as we prepare our environment for operating under a new model as a commercial bank.

The observed loss was primarily due to the change in the capital structure as some amounts which used to be classified as "equity" are regarded as liabilities and have started earning interest as opposed to getting a distribution from profits. Furthermore, implementation of IFRS 9, an accounting standard, requires BBS Limited to make loss provisions for accounts even before they default. The impairment method, that is, expected credit loss as opposed to incurred credit losses, that has been adopted is now forward looking. During the year, BBS Limited experienced an increase in non-performing loans as some of our customers defaulted on their loan repayments due to loss of income and/or loss of jobs largely associated with mine closures and retrenchment by some companies. Thus, the non-performing loans ratio increased from 9% to 10% as at the end of December 2019.

Banking licence application

Following the conclusion of the 2019 audit, BBS Limited will re-submit its application for a commercial banking licence early 2021. The application record has been updated accordingly and all things being equal, we expect to have received a response from the authorities by the middle of 2021. In the meantime, we are readying

ourselves to operate commercially by putting in place all the necessary operational and human capital requirements.

Trading in BBSL Shares

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

New Board Member

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

Conclusion

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

Pelani D. Siwawa-Ndai

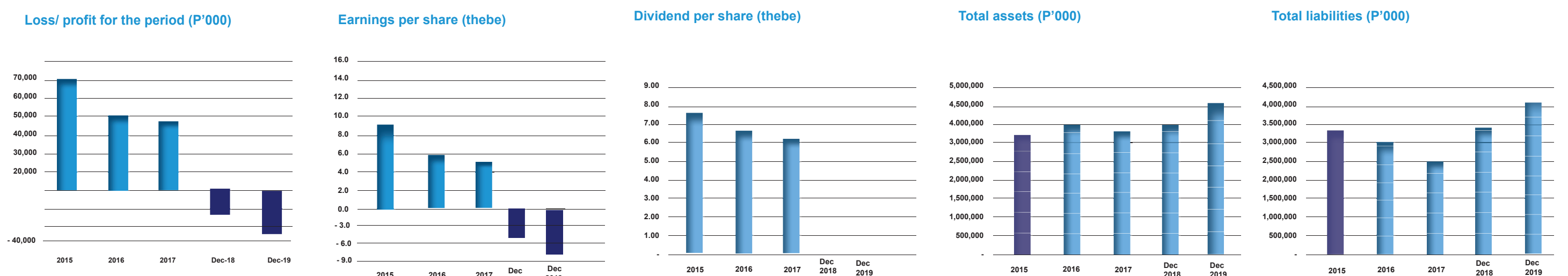


Chairperson

SUMMARISED AUDITED STATEMENT OF FINANCIAL POSITION for the year ended 31 December 2019

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

PERFORMANCE HIGHLIGHTS for the year ended 31 December 2019





MANAGING DIRECTOR'S REPORT

As the Chairperson Ms. Siwawa-Ndai notes in her report, the 2019 audit has been concluded. At the outset, I would like to thank BBS Limited Shareholders for their unremitting support during the time that we were working on audits that were behind schedule. Despite the inconvenience that this caused to some Shareholders, especially those that could not trade in their shares, they remained patient and supportive. I would like to thank the Board for its support during this time and BBS Limited employees who worked very hard to right the ship, as it were.

Results

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

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

Strategy going forward

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

Impact of COVID-19

Nonetheless, before the conclusion of the 2019 audit, we were affected by the global pandemic COVID-19 but did our very best to stave off its negative impact on our business. It tested our processes to the hilt and I am convinced that we have a robust framework to withstand such risks. Through our operational risk management framework, we took several reasoned steps to protect the business from the shocks of COVID-19. One of them was reducing mortgage funding limits for various geographical areas. It is subject to review as the fortunes of the business and the economy improve. We also activated observation of COVID-19 protocols in the workplace for staff and clients to mitigate any possible infections.

Conclusion

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

Pius K. Molefe

Managing Director

SUMMARISED AUDITED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	Ordinary shares	Indefinite Period shares	Statutory reserve	General market risk reserve	Retained earnings	Total equity
	P'000	P'000	P'000	P'000	P'000	P'000
Balance at 01 April 2018	-	945,716	124,462	64,000	23,412	1,157,590
Loss for the period	-	-	-	-	(26,191)	(26,191)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive Loss for the period	-	-	-	-	(26,191)	(26,191)
Transfer of debentures	-	(101,000)	-	-	-	(101,000)
Transfer of indefinite savings	-	(544,892)	-	-	-	(544,892)
Transfer of cash and cash equivalents	-	-	(759)	-	-	(759)
Transfer from paid up shares	-	97,653	-	-	-	97,653
Transfer from subscription shares	-	15,271	-	-	-	15,271
IFRS 9 transitional adjustment on initial application at 01 April 2018	-	-	-	-	(28,321)	(28,321)
Transfer from general reserve	-	64,000	-	(64,000)	-	-
Transfer from statutory reserve	-	10,266	(10,266)	-	-	-
Transfer to ordinary shares	487,014	(487,014)	-	-	-	-
Balance at 01 January 2019	487,014	-	113,437	-	(31,100)	569,351
Loss for the year	-	-	-	-	(35,761)	(35,761)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive Loss for the year	-	-	-	-	(35,761)	(35,761)
Issue of shares	439	-	-	-	-	439
Balance at 31 December 2019	487,453	-	113,437	-	(66,861)	534,029

SUMMARISED AUDITED STATEMENT OF CASH FLOWS for the year ended 31 December 2019

	12 months 31 December 2019 P'000	9 months 31 December 2018 P'000
Cash flows from operating activities		
Interest receipts	307,519	225,545
Commission receipts	20,077	15,731
Interest payments	(176,872)	(117,576)
Commission payments	(1,065)	(818)
Other operating income	5,628	3,526
Cash payments to employees and suppliers	(132,805)	(114,331)
Net cash received from operating activities before changes in working capital	22,482	12 077
Movement in:		
Short-term loans and advances	16,783	(8,707)
Mortgage loans and advances	(222,774)	(138,478)
Properties in possession (net)	499	4,510
Other assets	5,592	(7,628)
Customers' savings and fixed deposits accounts	703,539	(64,300)
Paid up and subscription savings*	12,084	-
Withholding tax*	792	-
Other liabilities*	(5,162)	-
Net cash generated from/(used in) operating activities	533,835	(185,112)
Cash flows from investing activities		
Purchase of property and equipment	(12,575)	(9,740)
Sale of property and equipment	209	-
Purchase of intangible assets	(1,812)	-
New placement of investments with banks	(1,719 400)	(1,035 897)
Maturities of investments with banks	1,307 726	1,293 937
Net cash (used in)/from investing activities	(425,852)	248,300
Cash flows from financing activities		
Reserves - cash distribution to members	-	(759)
Proceeds from borrowings	30,000	120,000
Repayment of borrowings	(163,832)	(170,590)
Payment on lease liabilities	(1,863)	-
Dividends paid	-	(13,317)
Net cash used in financing activities	(135,695)	(64,666)
Total cash movement for the year/period	(27,712)	(1,478)
Cash at the beginning of the year/period	79,531	81,008
Total cash at end of the year/period	51,819	79,530

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

DIRECTORS' REPORT for the year ended 31 December 2019

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

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

1. Business activities

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

2. Change in financial period end

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

3. Financial results and position

The Company's financial results and position are reflected in the audited financial statements. The Company realised a 26% increase in operating income from P110 million for the period ended 31 December 2018 to P139 million for the year ended 31 December 2019. A loss of P35.761 million was recorded during the year ended 31 December 2019 compared to a loss of P26.191 million for the period ended 31 December 2018.

4. Stated capital

The issued share capital of the Company comprised 487,453 ordinary shares at the end of the year. The detail on shareholding is presented in the audited financial statements.

5. Directors' interests in shares

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

6. Dividends

No dividends were declared during the current or prior period.

7. Directorate

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

Directors

1. Ms. Pelani D. Siwawa-Ndai	Chairperson	Non-executive	Motswana
2. Mr. Pius K. Molefe	Managing Director	Executive	Motswana
3. Mr. Michael M. Tlhagwane	Director	Non-executive	Motswana
4. Mr. James M. Kamyuka	Director	Non-executive	Motswana
5. Mr. Kgalalelo Monthe	Director	Non-executive	Motswana
6. Mr. Richard Molosiwa	Director	Non-executive	Motswana
7. Mr. Geoffrey Bakwena	Director*	Non-executive	Motswana

*Appointed Thursday 23 July 2020

Registered address

Plot 13108-112
Broadhurst
Gaborone, Botswana

Auditors

KPMG
Plot 67977, Off Tlokweng Road
Fairgrounds Office Park
P.O Box 1519
Gaborone, Botswana

8. Delay in issuance of BBS Limited financial statements

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

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

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

Ex parte case

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

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

Details of the ex parte application are captured in the detailed financial statements.

Trading of shares

The trading of the BBS Limited shares was halted on the Serala Over The Counter (OTC) trading platform of Botswana Stock Exchange Limited on 01 April 2019 pending the release of its audited financial results for the period ended 31 December 2018 and the suspension remained in force since the 2019 financial statements were also late. The trading of the shares resumed 11 December 2020, following the publication of the unaudited preliminary results on the Botswana Stock Exchange.

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 BBSL Annual Financial Statements (AFS) for the period ended December 2018 the application was voluntarily withdrawn in October 2019. The application will be updated and resubmitted early 2021.

Events occurring after the reporting date

COVID-19 pandemic

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

The COVID-19 pandemic occurred subsequent to the 31 December 2019 reporting period and will, therefore, not have an impact on the recognition and measurement of assets and liabilities in the financial statements of the Company for the period. However, the Directors have performed an assessment of the impact of the pandemic on the Company financial statements considering three different scenarios. The Directors' view is that uncertainties relating to the COVID-19 do not result in any material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.



Ms Pelani D. Siwawa-Ndai
Board Chairperson



Michael .M. Tlhagwane
Chairperson-Finance and Audit Committee