

# Botswana Building Society

## Audited Financial Results for the Year Ended 31 March 2018



### CHAIRMAN’S REPORT

As you are aware, we are no longer Botswana Building Society following the incorporation of its successor entity BBS Limited on 26 April 2018. This is another important milestone in the history of our organisation as it marks progress towards commercialisation. Therefore, I am particularly pleased to be able to present this report to you as the first Chairman of BBS Limited.

It has been a long journey which can be traced back to 2004 when the idea to demutualise Botswana Building Society was proposed to the Board by the then new Chief Executive Officer, now Managing Director, Mr. Pius Molefe. It is now coming to fruition at the right time when the fortunes of the business have been declining due to increased competition and reliance on two products being mortgages and investments.

Even though we are now a company, until BBS Limited is issued with a commercial banking license by the Bank of Botswana, it will continue to conduct the business of a building society. Therefore, all arrangements made with customers and other stakeholders continue under the new company as they are and will remain so under the envisaged commercial bank.

In the meantime, ordinary shares of those that bought them in BBS Limited using their shares as they then were under Botswana Building Society being Paid Up, Indefinite Period and Subscription, are now listed on the Botswana Stock Exchange's Over the Counter Platform called "Serala". BBS Limited was the first to list on this special counter and it should be noted that it is separate and different to the one for publicly listed entities which many of you are familiar with.

The rationale for listing on the Serala platform was to enable BBS Limited shareholders to trade their shares as and when they would like to. This time, trading in such shares will be carried out through a broker entirely under the supervision of the Botswana Stock Exchange.

**Financial performance**

We delivered an admirable set of results achieving a profit of P49,941 million (2017:P47.885 million). It increased by 4% compared to that of the prior year which affirms the resilience of our business. However, we can only build on this success if we can transform BBS quickly into a commercial bank, a

process that is moving apace.

The Board also recommended a dividend of P57,803 million compared to P59,376 million the previous year to Shareholders. The decline in the dividend paid is mainly due to the reduction of the interest rate by 50 basis points by the Bank of Botswana in October 2017.

It is also important for me to remind Shareholders that it is projected that for the first three years after commercialisation, BBS Limited will make losses or a small profit. However, I must point out that the anticipated losses will not necessarily be because of poor performance. They will be a result of costs associated with the rolling out of new products and services, putting in place new systems for the commercial banking environment and the change in our capital structure since indefinite paid up shares are now categorised as liabilities having an impact on interest expenses as opposed to a dividend payment.

**Board evolution**

Following the incorporation of BBS Limited, some Directors of the then Botswana Building Society retired to make way for new ones who will help take the organisation forward. Therefore, I would like to thank the following retired Directors for their dedicated service to BBS over the years: Mr. Simon Hirschfeld, Mr. Gerald Thipe, Mrs. Tsetsele Fantan, Mr. Kelebamang Motlhanka and Mr. Kelapile Ndobano.

On behalf of the BBS Limited Board and Staff, I would like to wish them well in their future endeavours. Over the years, the Botswana Building Society Board of Directors presided over a profitable organisation whose performance was admired by many especially given its competitors and the fact that it had a limited catalogue of products and services.

No doubt there have been other successes of the Botswana Building Society Board of Directors over the years: the Demutualisation Project itself whose ultimate prize will be the anticipated commercial banking license; upgrading of our core banking system T24 so that it has sufficient capacity for banking operations; putting in place solid governance structures; helping to maintain a commendable staff morale, and; supporting Management in all its endeavours to improve the business. The former Directors should rightly be proud of these achievements.

Following the retirement of the above Directors after the incorporation of BBS Limited a new Board came into being. It comprises myself, a former commercial banker with vast experience in banking, Ms. Pelani Siwawa-Ndai, a businesswoman and former senior central banker who held various positions at the Bank of Botswana, and; Mr. Kgalalelo Monthe a businessman and senior attorney with vast commercial law experience. We look forward to their contributions to the growth and development of BBS Limited. The new Directors joined those continuing from the Botswana Building Society Board being the Managing Director Mr. Pius K. Molefe, my immediate predecessor as Chairman of the Board Mr. James M. Kamyuka, Mr. Richard Molosiwa, and Mr. Michael M. Tlhagwane. I would like to thank the continuing Directors for ensuring that there was a seamless transition between the two Boards and for their support in welcoming us, the new Directors. Their institutional memory has also been invaluable.

**Way forward**

As stated above, we are hopeful that our application to the Bank of Botswana for a banking licence will be successful. We are targeting to start operating as a commercial bank in the second half of 2019.

Once again, I wish to assure you that we are well poised for the task ahead.

The necessary infrastructure, physical, technological, customers, shareholders and human resources, are in place ready to start serving you and the wider nation as Botswana's first indigenous commercial bank. It must be said, however, that we would not be where we are without your firm support for which we are grateful.

Sincerely



Taolelo Mosethi  
Board Chairman

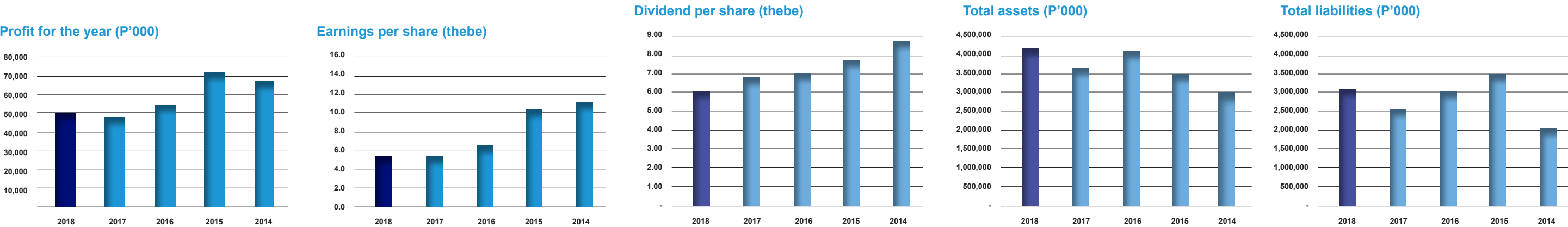
### STATEMENT OF FINANCIAL POSITION at 31 March 2018

Notes	2018 P'000	2017 P'000
<b>Assets</b>		
Cash and cash equivalents	6 81 008	70 308
Investments with banks	7 777 918	232 251
Other assets	8 21 778	19 529
Short term loans and advances to customers	9 87 442	81 600
Properties-in-possession	10 13 700	11 792
Mortgage loans and advances to customers	11 3 099 050	3 117 664
Intangible assets	12 29 227	9 282
Property and equipment	13 96 714	110 204
<b>Total assets</b>	<b>4 206 837</b>	<b>3 652 630</b>
<b>Liabilities</b>		
Customers' savings and fixed deposit accounts	14 1 274 795	1 130 984
Paid up and subscription shares	15 527 201	508 619
Withholding tax	16 2 698	3 140
Borrowings	17 1 175 740	846 915
Other liabilities	18 68 813	70 525
<b>Total liabilities</b>	<b>3 049 247</b>	<b>2 560 183</b>
<b>Equity</b>		
Indefinite period shares	19 945 716	872 709
Retained earnings	23 412	36 270
Statutory reserve	20 124 462	119 468
General market risk reserve	20 64 000	64 000
<b>Total equity</b>	<b>1 157 590</b>	<b>1 092 447</b>
<b>Total liabilities and equity</b>	<b>4 206 837</b>	<b>3 652 630</b>

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 31 March 2018

Notes	2018 P'000	2017 P'000
Interest income	21 303 079	299 384
Interest expense	22 (135 258)	(137 914 )
Net interest income	167 821	161 470
Fee and commission income	23 21 202	22 465
Fee and commission expense	23 (1 105)	(1 117 )
Net fee and commission income	20 097	21 348
<b>Revenue</b>	<b>187 918</b>	<b>182 818</b>
Other operating income	24 4 855	5 271
<b>Operating income</b>	<b>192 773</b>	<b>188 089</b>
Impairment loss on financial assets	25 14 270	11 460
Personnel expenses	26 70 776	65 506
Depreciation and amortisation	27 12 074	11 220
Operating lease expenses	28 2 492	2 548
Other expenses	29 43 220	49 470
<b>Total expenses</b>	<b>142 832</b>	<b>140 204</b>
<b>Profit for the year</b>	<b>49 941</b>	<b>47 885</b>
<b>Total comprehensive income for the year</b>	<b>49 941</b>	<b>47 885</b>
Basic and diluted earnings per share (thebe)	31 5.5	5.4

### PERFORMANCE HIGHLIGHTS for the year ended 31 March 2018







## MANAGING DIRECTOR'S REPORT

As our Board Chairman Mr. Taolelo Mosetlhi notes in his statement, this has been a very busy period for BBS Limited since you passed the resolution to demutualise the then Botswana Building Society on 24 August 2017 paving the way to apply for a banking licence. It was absolutely the correct decision and much has been done to ensure that it becomes a reality in the shortest time possible.

The building society business model limits products and services offerings to mortgages and investment products such as Paid Up Shares. Once it has registered as a bank, BBS will build on its solid foundation as a mortgage lender and savings institution to offer a full range of products and services. It will deliver these through the existing distribution channels such as branches and ATMs. It will also leverage on technology to deliver quality and exciting customer experience.

We remain optimistic that our banking licence application will be considered favourably by the Bank of Botswana. In the meantime, we have upgraded our core banking system T24 to be ready for the exciting challenges of a commercial bank. On the people side, I am continually engaging with employees to ensure that we are all aligned and fully prepared for the commercial banking environment. Taking cognizance of the need to have people with the right skills and competencies and in appropriate business units, the company has embarked on a skills and competency audit. The intention is that where there are skills gaps, there should be targeted training and recruitment of people to handle specialist functions.

### Results

I am sure you will be heartened to note that despite the on-going transformation process, the difficult trading environment and the total expenses having escalated from P140.0 million (2017) to P143.0 million, BBS continues to perform impressively.

BBS earned a profit of P49.941 million during the year ended 31 March 2018 (2017: P47.885 million). This being a 4% increase compared to that of the previous year.

Our assets are at P4.207 billion in 2017/18 this being a 15% increase from the previous year.

As for Paid Up and Subscription Shares there was an increase of 4% from P508.619 million (2016/17) to P527.201 million.

Fee and commission income registered a decrease of 6% from P22.465 million (2016/17) to P21.202 million.

Interest income increased by 1% from P299.384 million (2016/17) to P303.079 million. Dividends paid amounted to P57.803 million compared to P 59.376 million the previous year, this being a decrease of 3% which was also as result of a decrease in interest rates.

The cost to income ratio is 67% compared to 68.45% in the previous financial year. The cost to income ratio is expected to be high for the next few years as we continue to implement initiatives pertaining to the transformation process.

### Transition

As indicated above, we are well prepared to transition to the new commercial bank. Our upgraded systems are in place; we will strengthen the leadership team with new members in relation specialist functions, and; we are embedding the new organisational structure amongst a number of initiatives. By the time BBS is issued with a commercial banking license, we would have been long ready for the new dispensation.

### Rebranding of BBS

I imagine that one of the issues you may be asking yourselves is what your new bank will look like, that is its brand, what its personality will be and perhaps more importantly, how it will interact with you, employees and other stakeholders. We are working on a new brand for BBS and we have all these and more in mind to ensure that it will set BBS Bank apart from the competition. This will have to be a brand that is unique and competitive. It will be a brand that understands the market it is serving and will stand the test of time. Therefore, we are looking forward to the outcome of this rebranding project and we will ask for your input through a research exercise before the brand is finalised.

### Supporting our communities

BBS continued to lend its support to various community initiatives during the year. As usual, we supported entities such as the Albinism Society of Botswana, the Sir Ketumile Masire Foundation, the women's social and economic empowerment group Shegotsa Molelo, Happy Hearts Foundation which is raising funds to build a cancer treatment facility in Gaborone, Kalahari Conservation Society and Business Botswana.

With regard to supporting education, we equipped the computer laboratory at Mowana Primary School in Mowana, North East, with computers and internet connectivity for the benefit of pupils. We also carried out an eye testing exercise at Letswai Primary School in Zutshwa, Kgalagadi North, and donated spectacles to 42 pupils with eye sight challenges. It has generally been found that many pupils do not do well in their academic work not because they are not gifted but as a result of poor eye sight. Therefore, we hope that the pupils of Letswai Primary School will not only look after them but put them to good use as well. Perhaps more importantly, they will have a significant positive impact on their lives from now onwards. Many will recall that our relationship with Letswai Primary School started in 2013 when we adopted it and in the process, built the school a library for about P1.2 million. Since then, every year we have been helping the school in whatever way that we can including buying gifts for the best performing pupils.

Another of our projects was the construction of ablution facilities for teachers and pupils at Molapowabojang Primary School in Molapowabojang village in the southern part of our country. The project also included upgrading some of the existing ablution facilities. The pupils had been using pit latrines dating back to 1966 when the school opened.

### Appreciation

On behalf of Management, I would like to express my appreciation to you our Shareholders for your steadfast support in this historic journey and to recently retired and present Board Members for their guidance.

In particular, I would also like to thank BBS Staff for their patience, understanding and forbearance during this period of transition and for working tirelessly to ensure that the Demutualisation Project is a success. Their hard work, including over weekends, late into nights and during public holidays on various aspects of the project have not gone unnoticed and will be rewarded by the envisaged main result: The first indigenous commercial bank in Botswana.

Thank you,

Pius Komane Molefe  
Managing Director

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2018

	Indefinite period shares	Statutory reserve	General market	Retained earnings risk reserve	Total equity
	P'000	P'000	P'000	P'000	P'000
<b>Balance at 01 April 2016</b>	<b>846 970</b>	<b>114 680</b>	<b>64 000</b>	<b>52 549</b>	<b>1 078 199</b>
<i>Total comprehensive income</i>					
Profit for the year	-	-	-	47 885	<b>47 885</b>
<i>Transactions with owners of the Society</i>					
Issue of new shares (net)	25 739	-	-	-	<b>25 739</b>
Dividends paid	-	-	-	(59 376)	<b>(59 376)</b>
Transfers during the year	-	4 788	-	(4 788)	-
<i>Total contributions and distributions</i>	<b>25 739</b>	<b>4 788</b>	<b>-</b>	<b>(64 164)</b>	<b>(33 637)</b>
<b>Balance at 31 March 2017</b>	<b>872 709</b>	<b>119 468</b>	<b>64 000</b>	<b>36 270</b>	<b>1 092 447</b>
<i>Total comprehensive income</i>					
Profit for the year	-	-	-	49 941	<b>49 941</b>
<i>Transactions with owners of the Society</i>					
Issue of new shares (net)	73 007	-	-	-	<b>73 007</b>
Dividends paid	-	-	-	(57 805)	<b>(57 805)</b>
Transfers during the year	-	4 994	-	(4 994)	-
<i>Total contributions and distributions</i>	<b>73 007</b>	<b>4 994</b>	<b>-</b>	<b>(62 799)</b>	<b>15 202</b>
<b>Balance at 31 March 2018</b>	<b>945 716</b>	<b>124 462</b>	<b>64 000</b>	<b>23 412</b>	<b>1 157 590</b>

Refer to note 20 for details on the Society's reserves.

## DIRECTORS' REPORT for the year ended 31 March 2018

The directors have pleasure in presenting their report together with the financial statements of Botswana Building Society ("the Society") for the year ended 31 March 2018.

### Business activities

The Society is primarily involved in property finance and the provision of banking services.

### Financial results and position

The Society's financial results and position are reflected in the financial statements set out on pages 30 to 90. The Society realised an increase of 3% in operating income from P188 million in 2017 to P193 million for the current year and an increase of 4% in profit for the year from P48 million in 2017 to P50 million for the current year.

### Dividends

A gross dividend of P58 million was declared and paid to Indefinite Period Shareholders (2017: P59 million).

### Board of directors as at 31 March 2018

Mr. James M. Kamyuka	Chairman
Mr. Pius K. Molefe	Managing Director
Mrs. Tsetsele C. Fantan	Member
Mr. Simon Hirschfeld	Member
Mr. Michael M. Tlhagwane	Member
Mr. Kelebamang Mothanka	Member

Mr. Richard Molosiwa	Member
Mr. Gerald N. Thipe	Member
Mr. Kelapile Ndobano	Member
Frederick Selolwane	Member (Resigned 24 August 2017)

Registered address	Auditors
Plot 13108-112 Broadhurst Gaborone, Botswana	KPMG Plot 67977, Off Tlokweng Road Fairgrounds Office Park Gaborone, Botswana

### Stated capital

The Society issued P73 million (net) Indefinite Period Shares during the current financial year (2017: P25.74 million (net)).

### Events occurring after the reporting date

The Society successfully held a Special General Meeting (SGM) on the 24 August 2017 where certain resolutions detailed in note 38 were passed.

Subsequently, Botswana Building Society was converted to a company, BBS Limited on 26 April 2018 following its application to Companies and Intellectual Property Authority (CIPA).

BBS Limited will continue to operate the business of a building society until such a time that the Banking license application is evaluated by Bank of Botswana. The conversion resulted in a change in the capital structure as outlined in note 39.

## STATEMENT OF CASH FLOWS for the year ended 31 March 2018

	Notes	2018 P'000	2017 P'000
<b>Cash flows from operating activities</b>			
Interest receipts		296 632	298 105
Commission receipts		21 202	22 465
Interest payments		(155 986)	(137 101)
Commission payments		(1 105)	(1 117)
Other operating income		4 855	5 269
Cash payments to employees and suppliers		(120 603)	(122 159)
<b>Net cash received from operating activities before changes in working capital</b>		<b>44 995</b>	<b>65 462</b>
<b>Movement in:</b>			
- Short term loans and advances		(5 842)	(2 215)
- Mortgage loans and advances		4 344	(56 484)
- Property in possession (net)		(1 908)	(378)
- Other assets		(2 222)	(1 221)
- Customer savings and fixed deposits accounts		143 811	(174 858)
<b>Net cash generated from/(used in) operating activities</b>		<b>183 178</b>	<b>(169 694)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	13	(18 435)	(13 358)
Proceeds from disposal of property and equipment		-	9
Movement in fixed deposits with banks		(539 220)	425 375
Purchase of intangible assets	12	(94)	(35)
<b>Net cash (used in)/generated from investing activities</b>		<b>(557 749)</b>	<b>411 991</b>
<b>Cash flows from financing activities</b>			
Receipt of borrowed funds		440 000	174 000
Repayment of borrowed funds and debt securities		(100 038)	(433 298)
Proceeds received from issue of indefinite period shares		102 980	106 457
Payment made for redemption of indefinite shares		(29 973)	(80 718)
Proceeds from paid up and subscription shares		18 582	5 267
Dividends paid		(46 280)	(73 724)
<b>Net cash generated/(used in) from financing activities</b>		<b>385 271</b>	<b>(302 016)</b>
<b>Movement in cash and cash equivalents</b>		<b>10 700</b>	<b>(59 719)</b>
Cash and cash equivalents at beginning of the year	6	70 308	130 027
<b>Cash and cash equivalents at end of the year</b>	<b>6</b>	<b>81 008</b>	<b>70 308</b>

### Approval of the annual financial statements

The annual financial statements of Botswana Building Society, as identified in the first paragraph, were approved by the board of directors on 7th September 2018 and signed on their behalf by:

Taolelo Mosetlhi  
Board Chairman

M.M. Thagwane  
Chairman-Finance  
and Audit Committee