



Delivering excellent customer service

BOTSWANA BUILDING SOCIETY [ANNUAL REPORT](#) 2013/14



Our Values

In order to achieve its strategic objectives, compete in the financial services sector and attain a leading role, the Society in all its business operations will be guided by the following key values.

Our Mission

To provide attractive financial products and services that create value for our stakeholders.

Our Vision

To be the regional leader in the provision of financial services solutions.



Respect

To serve customers with honour and esteem.



Integrity

To be ethical and trustworthy in the way we conduct business.



Innovation

To be creative in the way we do business.



Service Excellence

To be the premier provider of financial services.



Teamwork

To work together towards a common goal.



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Delivering excellent customer service

We *know* you better

Five Year Summary

For the year ended 31 March 2014

Analysis of Amounts (P'000)	2014	2013	2012	2011	2010
Deposits (Ordinary, Special savings, Letsibogo and Tlamelo and Lerako)	528 111	482 898	280 431	282 270	273 608
Fixed deposits	118 554	108 800	158 456	8 080	17 297
Advances (mortgages and short loans)	2 605 177	2 355 014	1 988 586	1 688 744	1 458 517
All classes of shares	1 210 267	1 109 019	971 391	1 013 112	908 533
Analysis of Account holdings					
Number of mortgage bond holders	5 484	5 540	5 488	5 206	4 912
Number of short-term loan account holders	6 955	6 747	7 285	7 728	7 969
Number of paid up share account holders	43 310	42 357	41 636	41 427	40 225
Number of subscription share account holders	5 573	5 582	5 817	5 968	5 807
Number of fixed-deposit account holders	126	130	148	842	779
Number of savings account holders	118 142	112 733	107 658	103 214	104 785
	179 590	173 089	168 032	164 385	164 477

Value Added Statement

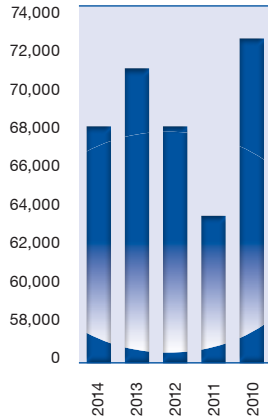
For the year ended 31 March 2014

Value created	2014 P'000	2013 P'000
Income from lending and banking activities	310 746	301 776
Cost of services	(127 456)	(128 834)
Value created by operations	183 290	172 942
Non-operating income	5 293	4 346
Operating expenditure excluding staff costs	(55 238)	(43 897)
	133 345	133 391
Value distributed		
Employees-Salaries & benefits	58 047	57 380
Shareholders-Dividends	59 125	58 411
	117 172	115 791
Value retained		
Retained income (including transfer to statutory reserve)	8 910	12 721
Depreciation	7 263	4 879
	16 173	17 600
Total value distributed & retained	133 345	133 391

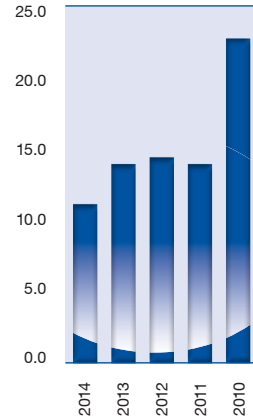
Performance Highlights

For the year ended 31 March 2014

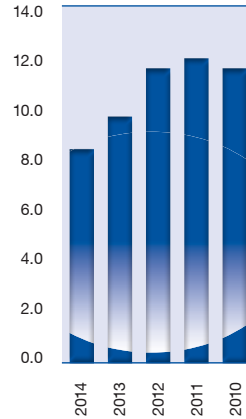
Profit for the year
(P'000)



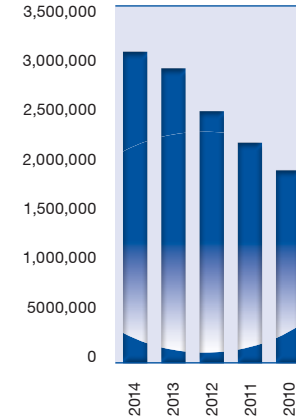
Earnings per share
(thebe)



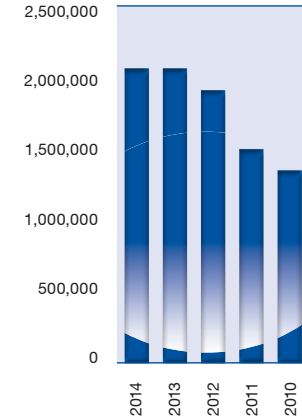
Dividend per share
(thebe)



Total assets
(P'000)



Total liabilities
(P'000)





Notice of Meeting & Agenda

Notice is hereby given that the Thirty Eighth (38th) Annual General Meeting of Members will be held at the Gaborone Sun Conference Centre, Gaborone on Friday 29 August 2014 at 0900 a.m.

Agenda

1. Confirmation of quorum.
2. Chairman's welcome remarks.
3. To approve Minutes of the Annual General Meeting held on 23 August 2013.
4. To receive the Financial Statements, the Directors' and Auditors' Reports for the year ended 31st March 2014.
5. To approve the Financial Statements.
6. To approve the Directors' Remuneration.
7. To approve the Auditors' Remuneration.
8. To note the re-appointment of the following Directors in terms of Rule 83(i) of the Society, who are eligible for re-election and have put themselves up for re-election:
 - Mrs. Mareledi Segotso
 - Mr. Frederick Selolwane
 - Mr. Gerald Thipe
9. To confirm the appointment of the following Director in terms of Rule 80 of the Society:
 - Mr. Kelapile Ndobano
10. To appoint KPMG as auditors of the Society for the following year.

11. To receive and consider questions and or comments from Shareholders.

Any Member may ask for a copy of the 23 August 2013 AGM minutes from the Society as per Rule 134.

Every Member eligible to vote shall be entitled to be represented by a proxy, provided that no person shall act as a proxy unless he is entitled in his own right to be present and vote at the meeting at which he acts as proxy. Such proxy should be received by the Society at least 7 (seven) days before the meeting for which such proxy is to be used.

Every partnership, firm, association of persons or company holding shares in the Society may authorise one of its partners or directors or any of its officials to exercise its vote at any general meeting provided that the Society shall have been notified of the name of such duly authorised representative not less than 4 (four) clear business days before the date of any such meeting.

By order of the BBS Board



Sipho H. Showa
Board Secretary



Board of Directors



Cross Kgosiidile
Chairman



Pius K. Molefe
Managing Director



Mareledi Segotso

Board of Directors



James Kamyuka



Simon Hirschfeld



Tsetsele C. Fantan



Gerald N. Thihe



Kelebamang Motlhanka



Frederick Selolwane

Executive Management



Pius K. Molefe
Managing Director



Pearl Ramokate-Nkoane
Head of Finance



Punah Moyo
Head of Projects & Strategy

Executive Management



Thelma O'Reilly
Head of Banking



Susan L. Mothabane
Head of Operations



Julia Ntshole
Head of Risk



Keona B. Mphetlhe
Head of Corporate Affairs



Sipho H. Showa
Head of Communication & Marketing



Fred Morapedi
Head of Information Technology (A)



Langa Phoi
Human Resource Manager



Board Chairman's Statement

Financial performance

I am pleased by the Society's latest performance especially in light of the tough environment it is operating in because of its operating model, which is restrictive unlike those of our major competitors being commercial banks. To this end, as indicated in my last report to you that we face the possibility of a decline in profit this year because of the constraints placed on the business by the Building Societies Act, profit reduced by 4% in the year under review to P68.035 million. This is compared to the P71 million profit achieved in the previous year.

Fortunately, the reduction in profit comes at a time when we are preparing to become a commercial bank as I will update you in this report. The motivation for the transformation as we have often said, is precisely because our current model is becoming increasingly unsustainable as the results are beginning to show.

While detail on the Society's performance is provided in the Managing Director Mr. Pius Komane Molefe's Statement and in the preceding pages of this Report, for my part, I would like to emphasise that while profitability declined, the Society remained strong given the nature of our business. BBS remains highly competitive in the mortgage sector as shown by the increase in mortgage loans and advances to customers during the year by 10% from P2.288 billion in the previous year to P2.526 billion in the year under review.

While our total expenses increased by 13% from P106.156 million in the previous year to P120.548 million, which is understandable in a climate of increasing administrative costs versus declining profit, I am heartened that our personnel expenses only increased by 1% from P57.380 million in 2012/13 to P58.047 million in 2013/14. This is an indication that the Society's human resources are deployed optimally further supported by our salaries and wages bill which declined by 1% from P41.300 million in the previous year to P40.802 million in the year under review. Where we could, we elected not to fill vacancies until we have fully understood the human capital requirements of a commercialised entity.

As shareholders, you will also be pleased to note that despite the performance of the Society, a combined dividend of P59.125 million was paid during the year under review this being an increase of 1% on the P58.411 million dividend paid in the previous year.

Board Chairman's Statement



Demutualisation gets underway

While preparatory work on the demutualisation project, which is necessary to help you make a formal decision whether or not BBS should change, is underway as I will indicate in the preceding paragraph, as a further necessary step, we will call a Special General Meeting to ask for the required resolution from shareholders for the conversion.

I am, therefore, pleased to inform you that in the year under review, we made a lot of progress with regard to preparatory work for the implementation of the demutualisation project. Most importantly, legislation enabling the demutualisation process was passed by the Parliament of Botswana and for its part, the Society was able to conclude the award of a tender for the provision of demutualisation consultancy services. The tender was awarded to PriceWaterhouseCoopers, a reputable firm of accountants, auditors and corporate consultants with strong knowledge and experience in the demutualisation of entities similar to BBS. We will, therefore, be working with PriceWaterhouseCoopers in this regard while our legal advisors will be Armstrongs Attorneys, an established corporate law firm in Botswana.

However, as stated above, we will call a Special General Meeting to formalise the demutualisation process through a resolution.

Staff

It would be remiss of the Board not to thank BBS Staff for its hard work during the year under review, especially in the context of the challenges experienced by the business. It is indeed correct that a business succeeds on the strength of its employees. Thus, on behalf of the BBS Board, I would like to express my appreciation to them for their commitment during the year.

Shareholders

Over the years, we have advised shareholders at each General Meeting about the desire to demutualise. I would, therefore, also like to thank our shareholders for their patience, support and understanding during the time that the Board and Management have been laying the foundation for the process to start.

Let me also thank our stakeholders such as the Ministry of Finance and Development Planning, the Ministry of Trade and Industry and the Attorney General's Chambers for their support and commitment to ensuring that relevant laws are amended and approved by Parliament to enable the demutualisation process.

Outlook

The Board is confident in the future of Botswana Building Society and its successor company. Based on our continued good performance, we have an organisation that has all the necessary elements to become one of the most successful indigenous commercial banks in Botswana. As our latest set of results indicate, we have a strong financial and asset base supported by an equally stellar reputation in the local market to compete effectively in the financial services sector. We are, therefore, looking forward to engaging with you on this very important matter.

Cross Kgosiile
Board Chairman

Pego ya ga Modulasetilo

Maduo

Ke itumedisiwa ke maduo a bosheng a BBS, segolobogolo mo dikgwethong tse re leng mo go tsone tse di akaretsang molao o o re paledisang go dira go feta fa re leng teng fa re tshwantshanngwa le ba re phadisanang nabo. Ke ka moo ke neng ka lo tlhaba podi matseba mo pegong yame e e fetileng gore go na le kgonagalo ya gore dipoelo tsa rona di wele tlase ngwaga ono ntateng ya molao o re o dirisang wa Building Societies. Ka jalo, dipoelo tsa rona di fokotsegile ka 4% mo ngwageng ono di ya kwa go P68.035 million go tswa kwa go P71 million ngwaga o o fetileng.

Ka lesego, kwelo tlase ya dipoelo e tla ka nako e e leng gore re setse re simolotse ipaakanyo ya go nna banka e e feletseng. Jaaka re kile ra bolela, lebaka legolo la go fetoga go nna banka e e feletseng ke gone gore sebopego sa gampieno sa kgwebo ya rona ga se re letle gore re gole jaaka re eletsa. Ke ka moo maduo a simololang go wele tlase.

E re dintlha ka botlalo tsa maduo di adilwe mo pegong ya Mookamedi Rre Pius Komane Molefe le mo pegong e ka kakaretso, nna ke eletsa go gatelela gore le fa dipoelo di fokotsegile, BBS e tswetse ka go nna kgwebo ya motia. Se se dirwa ke gore BBS e tswetse ka go nna mmamoratwa mo go tsa kadimo ya madi a dikago jaaka a ne a oketsega ka 10% a tswa kwa go P2.288 billion mo ngwageng oo fetileng go ya kwa go P2.526 billion mo ngwageng ono.

Le fa dituelo tsa go tsamaisa kgwebo di ne tsa oketsega ka 13% di tswa kwa go P106.156 million mo ngwageng o o fetileng go ya kwa go P120.548 million ngwaga ono, ke tiisiwa moko ke gore dituelo tsotlhe tsa babereki di oketsegile fela ka 1% go ya kwa go P58.047 million di tswa kwa go P57.380 million ka ngwaga wa 2012/13. Se ke sesupo sa gore re anantse bodirisi jwa rona le kgwebo sentle.

Mo mading a P58.047 million, P40.802 million (P41.300 million ka 2012/13 e le kwelo tlase ya 1%) e ne e le a dikamogelo tsa kgwedi le kgwedi. Fa go neng go kgonagala teng, re ne re sa thibe diphatlha tse di neng di le teng se e le maikaelelo a gore re iphe sebaka sa go tlhologanya gore re tla tlhoka bodiredi jo bo ntseng jang fa re nna banka e e feletseng.

Lo le babeeletsi, lo tla itumelela gape go lemoga gore e re dipoelo tsa BBS di fokotsegile, lo ne lwa duelwa morokotso wa P59.125 million mo ngwageng ono se e le koketsego ya 1% mo go wa P58.411 million o le o duetsweng ngwaga o o fetileng.

Phetogo go nna banka e e feletseng

E re tiro ya matlhagola tsela go nna banka e e feletseng go lo thusa go tsaya tshwetso ya gore a BBS e fetoge e setse e tswetse jaaka ke tla lo nankolela, re santse re tla bitsa phuthego e e faphegileng go lo kopa go tsaya tshwetso ya go fetoga.

Ka jalo, ke itumelela go lo begela gore mo ngwageng ono, re ne ra nna le kgatelopele e ntsi mo go baakanyetseng diphetogo tsa go nna banka e e feletseng. Se se bothokwa ke gore phetogo ya molao go re kgontsha maikaelelo a rona e ne ya dirwa ke Palamente ya Botswana fa BBS yone e ne ya tlhophisa bo maitsananape ba PricewaterhouseCoopers go thusa le go gakolola mo tirong e ya go nna banka e e feletseng. PricewaterhouseCoopers ke bo mantswitswidi mo ditirong tsa mofuta o ka jalo re tla dira le bone ga mmogo le bagakolodi ba molao ba ba ikemetseng ka nosi ba Armstrongs mo tirong e.

Le gale, jaaka ke setse ke tlhalositse, re tla bitsa phuthego e e faphegileng ya go lo kopa semmuso gore BBS e nne banka e e feletseng.

Pego ya ga Modulasetilo



Babereki

Ke tlaabo ke dirile phoso fa nka seke ke leboge babereki ba BBS go bo ba dirile ka natla le maatlametlo a magolo mo ngwageng o re o sekasekang o e bile segolobogolo re lebile dikgwetlho tse di re lebaganyeng. Ka jalo, mo boemong jwa Khuduthamaga ya BBS ke galaletsa fela thata tiro e ntle e ba e dirileng mo ngwageng ono.

Babeeletsi

Mo dingwageng tse di fetileng, re gakolotse babeeletsi ka maikaelelo a go nna banka e e feletseng. Ka jalo, ke batla go leboga babeeletsi ba rona go bo ba nnile pelo telele jaaka re ne re thaya kgang e re le Khuduthamaga le Botsamaisi.

Ke batla gape go leboga bana le seabe ba bangwe jaaka Lephata la Madi, Ditogamaano le Ditlhabolo, Lephata la Papadi le Madirelo le Ofisi ya ga Mma Melaomogolo go bo ba re eme nokeng ka go thusa go fetola melao gore re nne banka e feletseng e bo e rebolwa ke Palamente le mo ditirong tse dingwe tse di tsamaelanang le tiro e.

Tebelopele

Khuduthamaga e na le tshepho e e tletseng ya gore bokamoso jwa Botswana Building Society le madirelo a a tla tswang mo go yone ke jo bo motia. Maduo a a nametsang a re tswelletseng ka go a bona a supa gore tsotlhe di teng go simolodisa banka e e feletseng e e tlholegang mo Botswana. Maduo a rona a supa gore re na le madi le dithoto tse di lekaneng, tse di tshegeditsweng ke serodumo se se popota sa BBS, go ka mekamekana le ba re phadisanyang nabo mo kgwebong ya tsa kadimo ya madi. Ka jalo, re eme sentle go tla go buisanya le lona ka kgang e.

Cross Kgosiidiile
Modulasetilo





Managing Director's Statement

Our financial performance

In the midst of the challenges alluded to by the BBS Board Chairman Rre Cross Kgosiile, our performance continues to be more than satisfactory. It has taken a lot of effort from the BBS Board, Executive team, Staff and the support of our customers that we attain the profit of P68 million even though it is 4% below that of the previous financial year. The decline is largely due to the cost of running the business as shown in our total expenses which increased by 13%, that is to P120.548 million during the year under review from P106.156 million in the prior year.

However, while profitability declined, our asset base remained strong as it grew by 5% from P2.897 billion (2012/13) to P3.045 billion (2013/14). This is a clear indication that despite constraints imposed on the business by our current legislative framework, we have a strong asset base on which to set up a commercialised entity. Further, Botswana continue to show confidence in BBS given that our customer savings and fixed deposit accounts increased by 9% from P591.698 million (2012/13) to P646.665 million in 2013/14. Another of our premium investment products, Indefinite Period Paid Up Shares, grew from P619.030 million in the previous year to P726.712 million in the year under review or by 17% signalling the interest that it commands in the market. We only experienced a decline of 1% in Paid Up and Subscription Shares from P489.988 million (2012/13) to P483.555 million (2013/14).

Fee and commission income was up by 12% during the year under review from P23.298 million (2012/13) to P26.168 million (2013/14) while interest income increased by 2% from P278.478 million (2012/13) to P284.578 million (2013/14) amid the current low interest rate environment.

Customer service

At Botswana Building Society, we have long made a commitment to be true to our value system whose intrinsic message is to provide our customers and stakeholders with outstanding service. It is not always easy to do so but I can confidently state that we try our best in this regard and continuously look for opportunities to improve our service delivery processes hence the theme for this Report is "Delivering excellent customer service".

Managing Director's Statement



It is because of placing excellent customer service front and centre that our performance continues to be commendable. Therefore, the performance of the Society is underpinned by the hard work put into implementing new interventions to improve customer service. For example, our internet and mobile banking platform is now operational allowing BBS customers the convenience of making transactions whether at home, workplaces or remote areas as long as they have access to mobile telephony services or the internet and have registered with us. So, for BBS customers who are yet to be enrolled onto the mobile and internet banking platform, I would like to urge them to do so without delay.

The Society has also installed two new off-site Automated Teller Machines (ATMs) in Kanye and at the Francistown Bus Rank to increase accessibility of banking services by its customers. It is the first time that we have presence in Kanye and we hope to increase it to other key centres in the country.

We have also committed to resolving customer concerns quickly and fairly depending on the nature of the issue raised. To enhance this process, for the first time, we will engage a dedicated Customer Services Manager because customer service is important to our business and in preparation for our next phase as a commercial bank. The Customer Services Manager will be responsible for ensuring that we are aligned to the needs of our customers at all times and that they are attended to promptly.

My Executive team is also fully behind our drive for excellent customer service as they play their part in ensuring that the rest of the staff lives up to one of our values which is "Service Excellence". I also hold them and myself to this standard. So, you can rest assured that you have a dedicated team working for you. That is why we also take the initiative to visit our customers, unfortunately not all of them due to logistical factors, whenever we can.

One of the key elements to ensuring that we have a loyal and satisfied customer base is that our fees are reasonable for the services that we offer. These are complemented by attractive rates making BBS one of the leading mortgage lenders, especially in the residential stream.

Transformation

While the Board Chairman has indicated that we are now on course to demutualise into a commercial bank, I would like to assure you that we will engage with you timeously, earnestly and in a transparent manner during this process. We, therefore, look forward to meeting with you during the briefing sessions and ultimately, at the Special General Meeting that will be convened for you to decide whether the Society should demutualise.

The benefits of demutualising have been mentioned in previous Annual Reports and Annual General Meetings but the key one is that our business will become more sustainable and return better shareholder value than it is currently able to.

Managing Director's Statement



Supporting our communities

During the year under review, BBS continued to support a number of community based projects as part of its corporate social responsibility programme. Organisations that benefited include His Excellency the President's Housing Project Appeal, Kalahari Conservation Society, Sir Ketumile Masire Foundation, donation of two houses to Batswana in Charlesshill in the Ghanzi District, donations to Moselewapula Community Junior Secondary School in Gaborone and Mogojojojo Primary School in the Ngwaketse area.

Last year, I informed you that we built a library worth over P1.2 million for Letswai Primary School in Zutshwa, Kgalegadi North. You will no doubt be pleased to learn that the school's Primary School Leaving Examination results have shown some improvement since we built the library, from 7% the year before to 30% last year. While 30%, is below the marginal pass grade of 50%, in the context of Letswai Primary School, it is an encouraging performance given the challenges that the school is facing. We, therefore, hope that the results will continue to improve.

I am also pleased to note that some BBS employees, of their own accord, are involved in projects that are intended to assist those that are in need. For example, Twelve Play Community Outreach Group which is based in Gabane and seeks to help those that are ill, orphaned or poverty stricken was started by, amongst others, two BBS employees. Staff at our branches in Seilibe Phikwe, Maun and Thusanyo also supported a number of projects during the year under review.

Board

I would like to express my appreciation to the Board for the support it has given Management during the year which without we would not have achieved much especially in the areas of improving staff welfare, continuing to strengthen BBS processes and the demutualisation project milestones so far attained.

Our BBS team

Once again, we would not have achieved the present results without the dedication of our Staff members. I would, therefore, like to thank them for their hard work which also gives me confidence that they will be able to stand up to the challenges of the demutualisation process and the new entity.

Shareholders & Stakeholders

It is also appropriate for me to express my profound appreciation for the support the Society continues to receive from you as shareholders, customers and other stakeholders such as the Government of the Republic of Botswana primarily through the Ministry of Finance and Development Planning. Without this support, it would be difficult for us to have had the successes recorded in this Report.

Pius K. Molefe
Managing Director

Pego ya ga Mookamedi

Tsa Madi

Le ntswa go nnnile le dikgwetlho mo ngwageng o re o sekasekang wa madi tse Modulasetilo wa Khuduthamaga ya BBS Rre Cross Kgosidiile a di umakileng mo pegong ya gagwe, maduo a rona a a nametsa. Go tsere tiro e ntsi ke Khuduthamaga, Bookamedi le Badiri ga mmogo le kemonokeng ya badirisi ba ditlamelo tsa rona gore re bone poelo ya P68 million mme e le kwa tlase ga ya ngogola ka 4%. Kwelo tlase e ke ka ntata ya boturu jwa go tsamaisa kgwebo mo go oketsegileng ka 13% go tswa kwa go P106.156 million go ya kwa go P120.548 million.

Le gale, le fa dipoelo di ne tsa fokotsega, tlhwalhwa ya dithoto tsa rona tsotlile yone e ne ya tswela e le motia ka e godile ka 5% go tswa kwa go P2.897 billion ka 2012/13 go ya kwa go P3.045 billion ka 2013/14. Se ke sesupo sa gore le ntswa kgwebo ya rona e kgorelediwa ke dingwe, jaaka molao wa Building Societies, go gola, re na le motheo o o popota go ka nna banka. Gape, Batswana le bone ba tswetse ka go supa tshepo mo go rona ka gore matlole a polokelo a godile ka 9% a tswa kwa go P591.698 million ka 2012/13 go ya kwa go P646.665 million ka 2013/14. Letlole la diabe la Indefinite Period Paid Up lone le godile go tswa kwa go P619.030 million go ya kwa go P726.712 million kana ka 17%. Re ne ra nna le kwelo tlase fela mo matloleng a peeletso la diabe tsa Paid Up le Subscription Shares ka 1% go tswa mo go P489.988 million (2012/13) go ya kwa go P483.555 million (2013/14).

Madi a re a dirileng ka go tlhokomela matlole le go thusa baikopedi ba ditlamelo tsa matlo a ne a oketsega ka 12% a tswa mo go P23.298 million (2012/13) go ya kwa go P26.168 million (2013/14) fa morokotso o re o dirileng ka go boloka

madi o oketsegile ka 2% go tswa mo go P278.478 million (2012/13) go ya kwa go P284.578 million (2013/14) le ntswa merokotso e tswetse ka go wela tlase.

Go thusa setshaba ka botho le ka bofebo

Mo Botswana Building Society, re itlamilile gore re tla sala morago matshego a rona a molaetsa wa one wa konokono e leng go thusa badirisi ba ditlamelo tsa rona ka botho le ka bofebo jo bo kgonagalang. Se ga se motlhofo go se dira mme re a leka le gone go tswela re batla metlhale ya go tlabolola ka fa re thusang sechaba ka teng. Ke ka moo moono wa pego e e leng *"Enhancing excellent customer service"* kana *"Go etelelsa pele go thusa sechaba ka maatlametlo a magolo"*.

Ka go etelelsa pele thuso e e kwa godimo mo go dirisanyeng sechaba, maduo a rona a tswetse ka go nametsa. Ka jalo, matshego a maduo a BBS ke go dira ka natla le go tsenya mo tirisong mananeo a go thusa sechaba. Sekai, ke go tsenya mo tirisong maranyane a inthanete le a megala ya lotheka e badirisi ba ditlamelo tsa BBS ba e dirisang go banka le go ne go romela madi ba le kwa malwapeng, ditrong, magaeng kana gope fela ko megala ya bone e tshwarang teng kana gona le kgokaganyo ya inthanete. Ka jalo, ke rotloetsa badirisi ba ditlamelo tsa BBS ba ba iseng ba ikwadisetse go dirisa maranyane a rona a go banka ka mogala kana ka inthanete gore ba ikwadise le bone batle ba di akole.

Gape, BBS e tsentsa mechine ya di ATM kwa Kanye le mapalamelo a dikoloi tsa sechaba a Francistown go atametsa ditlamelo tsa yone kwa bathong. Ke lwa ntlha re nna le ditlamelo kwa Kanye mme re ikaelela go di atolosetsa kwa dikgaolong tse dingwe tsa lefatshe la rona.

Pego ya ga Mookamedi



Re itlamile gape go fefogela go rarabolola matshwenyego a badirisi ba ditlamelo tsa rona. Go tihomamisa gore se se a diragala, re tla hira mmereki yo lebaganeng le tsa go dirisanya le badirisi ba ditlamelo tsa rona, kana Customer Services Manager, ka gore badirisi ba ditlamelo tse ba botlhokwa fela thata mo go rona le isago fa re setse re le banka e e feletseng. Tiro ya gagwe e tona e tlaabo e le go tihomamisa gore badirisi ba ditlamelo tsa rona ba sekegelwa tsebe ka nako yotlhe, matshwenyego a bone a rarabololwa ka bofebo e bile go dirwa tse tsotlhe go setswe morago matshego a kgwebo ya rona.

Botsamaisi jwa BBS le jone bo mo moonong wa go tihomamisa gore re lo tlisetsa ditlamelo ka maatlametlo a magolo le gone gore babereki ba BBS le bone ba dira jalo. Ka jalo, ke lo tihomamisetsa gore lo na le setlhopho sa batho se se dirang ka boineelo. Ke ka moo re a tleng re tseye sebaka sa go etela badirisi ba ditlamelo tsa rona fa nako e letla.

Sengwe gape se se leng botlhokwa go tihomamisa gore re na le badirisi ba ditlamelo tsa rona ba ba kgotsofalelang thuso e ba e fiwang, ke go sa ba lopeng madi a a kwa godimo. Le merokotso e re e lopang mo dikadimong tsa dikago, e ka tswa e le tsa bonno kana tsa kgwebo, ke ee nametsang. Ke ka moo re tswelletseng ka go tshephiwa mo kgwebong e re leng mo go yone.

Phetogo

E re Mookamedi wa Khuduthamaga a kaile fa re le mo seemong sa go nna banka e e feletseng, ke batla go lo tihomamisetsa gore re tla lo rerisa ka kgang e nako e santse e le teng, ka boammaruri le ka go tshephega. Ka jalo, re tla dira thulaganyo ya gore re tle re buisanye ka kgang e gore kwa phelelong lo tseye tshwetso ya gore BBS a e fetoge e nne banka e e feletseng.

Mosola wa go nna banka e e feletseng ke gore kgwebo ya rona e tla kgona go gola motlhofo e bo e e itshetlela go ya isagong le gone gore babeeletsi mo go yone ba tla boelwa ke morokotso o o botoka gona le gompiano.

Tsa go thusa sechaba

Mo ngwageng o, BBS e ne ya tswela ka go thusa makoko a farologanyeng a akaretsa la ga Tautona wa Botswana la go agela batlhoki matlo, Kalahari Conservation Society le la Sir Ketumile Masire Foundation. Rene gape ra agela batlhoki ba le babedi matlo kwa Charleshill le go ntshetsa dikolo tsa Moselewapula Community Junior Secondary mo Gaborone le se se botlana sa Mogojogojo kwa GaNgwaketse dithuso tsa madi.

Pego ya ga Mookamedi



Ngwaga o fetileng ke ne ka lo begela fa re agile motlobo wa dibuka wa madi a a fetang P1.2 million kwa sekolong se se botlana sa Letswai kwa Zutshwa mo kgaolong ya Kgalagadi Bokone. Ke dumela gore lo tla itumelela go itse gore e sale ka nako eo maduo a sekolo sa Letswai a ne a tokafala go tswa kwa go 7% ngwaga tloa go ya kwa go 30% ngwaga o o fetileng. Le fa 30% a le kwa tlase, fa go lebilwe dikgwetlho tse sekolo sa Letswai se lebaneng natso, se ke maiphitlhelelo a magolo. Ka jalo, re solofela gore maduo a sekolo seo a tla tswelela ka go tokafala.

Ke itumelela gape gore babereki ba BBS, ka bo bone, ba tsentse letsogo mo go thuseng ba ba tlhokang. Sekai ke setlhopho sa Twelve Play Community Outreach sa Gabane se maloko a sone a mabedi e leng babereki ba BBS. Makalana a rona a Selibe Phikwe, Maun le Thusanyo le one a ne a thusa makgotla a a ikemetseng ka nosi mo ngwageng o o sa tswang go wela.

Khuduthamaga

Ke eletsa go lebogela Khuduthamaga ya BBS kemo nokeng ya yone mo Botsamaising ka gore fa e ne e seo re ka bo re ne re sa fitlhelela di le dintsi segolobogolo mo go tlhabololeng matshelo a babereki, go tlhabolola ditsamaiso tsa BBS le go simolodisa thulaganyo ya go nna banka.

Babereki ba BBS

Fa e ne e se ka go bereka ka natla ga babereki ba rona, go ka bo go nnile thata go fitlhelela maduo a ngwaga ono. Ka jalo, ke batla go galaleletsa babereki ba BBS tiro e ba e dirileng selo se e leng gore se ntiisa moko gore re tla kgona go emelelana le dikgwetlho tsa go nna banka e e feletseng.

Babeeletsi le Baetleetsi

Go matshwanedi gore ke supe ditebogo mo kemonokeng e BBS e tswetseng ka go e bona mo go lona lo le babeeletsi, badirisi ba ditlamelo tsa yone le bana le seabe jaaka Lephata la Madi, Ditlhabololo le Ditogamaano. Fa re ne re sena kemo nokeng e, go ka bo go nnile thata go fitlhelela maduo a a mo pegong e. Le ka moso bagaetsho.

Pius Komane Molefe
Mookamedi



Corporate Governance

BBS Board

Botswana Building Society (BBS) has a Board of Directors appointed in terms of the Building Societies Act and the BBS Rules. The BBS Board, working closely with BBS Executive Management, has committed itself to high levels of ethical leadership, integrity and governance. It thus understands that for Botswana Building Society to continue being a sustainable and profitable business and key stakeholder in the economy that delivers attractive returns to its shareholders and customers, it must provide the necessary oversight to ensure that this reputation remains intact. The BBS Board also recognises the need to have strong risk management frameworks and practices as this ensures that the business remains viable and competitive.

BBS Board Governance and Structure

The role of the BBS Board is to provide strategic direction to the business of the Society guided by the various constitutive documents, including the Board Charter. In addition, the BBS has adopted relevant corporate governance principles as laid out in the King Code on Corporate Governance to enhance its effectiveness.

Currently, there are nine (9) Board Members whose terms are renewable every three (3) years in line with the BBS Rules. According to the Rules, there can be no less than 5 (five) and not more than 20 (twenty) Directors and the Board determines an appropriate number within this range. As stated above, presently, it has been determined that the optimal number is nine (9) Directors.

Current Directors are:

- Cross Kgosiile-Board Chairman
- Pius Komane Molefe-Managing Director
- Mrs. Tsetsele Fantan
- Mrs. Mareledi Segotso
- Mr. Simon Hirschfeld
- Mr. James Kamyuka
- Mr. Frederick Selolwane
- Mr. Kelebamang Motlhanka
- Mr. Gerald Nyadze Thipe

Corporate Governance CONTINUED

In addition to the Board Charter, Botswana Building Society also has charters in place to guide its various Committees being:

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

The BBS Board and its Committees respectively meet at least four times a year to consider business and strategic issues, consider and approve financial results, budgets, monitor progress of matters delegated to Executive Management and generally help set the tone of the business.

A summary of meetings and attendance by Directors is indicated below:

	BBS Board	Tender Committee	Human Resources and Remuneration Committee	Finance and Audit Committee	Demutualisation Committee
Cross Kgosidiile	6/6		1/1*		
Pius K. Molefe	6/6	6/6	7/7		3/3
Tsetsele Fantan	5/6		6/7		3/3
Mareledi Segotso	4/6		6/7	5/8	
Simon Hirschfeld	4/6	6/6			
James Kamyuka	5/6			7/8	3/3
Frederick Selolwane	6/6	6/6			3/3
Kelebamang Motlhanka	6/6	6/6		8/8	
Gerald N. Thipe	6/6		7/7	8/8	3/3

*The Board Chairman was a special invitee at one of the Human Resources and Remuneration Committee meetings.

Corporate Governance

Finance and Audit Committee

The Finance and Audit Committee is chaired by Mr. James Kamyuka. The other Committees Members are Mr. Kelebamang Motlhanka, Mr. Gerald Thipe and Mrs. Mareledi Segotso.

Its role is to provide the Board with additional assurance regarding the efficacy and reliability of the financial and risk information. It also assists the Board in discharging its duties and the exercise of its oversight role in relation to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

Tender Committee

The Tender Committee is chaired by Mr. Frederick Selolwane. Its other Members are Mr. Simon Hirschfeld, Mr. Kelebamang Motlhanka and the Managing Director Mr. Pius Molefe.

It assists the Board in discharging its duties by reviewing the Society's tendering and procurement policies and practices to ensure that the Tender Rules and Procurement Procedures are recognised as "best practice", that all tenders are

conducted in a fair and ethical manner and that no conflict of interest exists with any Board Member or employee of the Society connected to the tendering and procurement processes.

Human Resources and Remuneration Committee

The Chairman of the Human Resources and Remuneration Committee (HRRC) is Mr. Gerald N. Thipe. Other Members are Mrs. Tsetsele Fantan, Mrs. Mareledi Segotso and the Managing Director Mr. Pius Molefe.

The HRRC assists the Board of Directors ("Board") in human resources as well as remuneration related matters.

Demutualisation Committee

The Chairman of the Demutualisation Committee is Mrs. Tsetsele C. Fantan. It has as its other Members Mr. James Kamyuka, Mr. Frederick Selolwane, Mr. Gerald Thipe and the Managing Director Mr. Pius Molefe.

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

Corporate Governance

Appointments/Resignations

In line with the BBS Rules, a third of the Directors resigned during the year under review and were duly re-elected having offered themselves to be considered for re-appointment. These were:

Mr. James Kamyuka
Mr. Simon Hirschfeld
Mr. Kelebamang Motlhanka

In terms of resignations, no Director left the Board during the year under review.

Director's remuneration

BBS Board fees are structured as indicated below:

- The Board Chairman is paid a once-off retainer fee of P30 000.00 and a sitting allowance of P6 000.00 per meeting. He attends Board Meetings only.
- Other Directors are paid once-off retainers of P25 000.00 each and sitting allowances of P5 000.00 per meeting. The sitting allowance is applicable both to Board and Board Committee meetings.

During the year under review, a total of P808 000.00 was paid towards Board fees and related expenses.

Conflict interest

BBS Directors are required to notify the Society, through the Board Secretary, in reasonable time of conflicts or potential conflicts of interest that they may have in relation to their dealings with the business.

In addition, as a matter of entrenched practice, BBS Directors declare conflicts of interest, if any, at each of their meetings.

Further, BBS Directors are required to declare their shareholding in other entities and in the Society every year in line with corporate governance requirements. This information is also submitted to the Bank of Botswana as per its oversight role over BBS as mandated by the Ministry of Finance and Development Planning.

Communication with stakeholders

The BBS Board is committed to ensuring that various BBS stakeholders, including shareholders, are kept informed of necessary information pertaining to the functioning of the business. One of the ways of doing so is through the Annual General Meeting where the financial performance of the Society is presented to shareholders and discussions are held on them and other pertinent matters of mutual interest.

In addition to the full set of results, BBS also publishes its mid-term results in the media to update stakeholders on the performance of the business.

Annual

Financial Statements Contents

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Directors' Responsibility Statement

For the year ended 31 March 2014

The directors are responsible for preparation and fair presentation of the financial statements of Botswana Building Society, comprising the statement of financial position at 31 March 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, and the director's report, in accordance with International Financial Reporting Standards, and in the manner required by the Building Societies Act (CAP 42:03) of Botswana.

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 Society to continue as 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 annual financial statements are fairly presented in accordance with International Financial Reporting Standards.

Approval of Annual Financial Statements

The annual financial statements of Botswana Building Society as identified in the first paragraph were approved by the directors on 30 June 2014 and signed on their behalf by:



Cross Kgosiile
Board Chairman



James Kamyuka
Chairman-Finance and Audit Committee

Directors' Report

For the year ended 31 March 2014

The Directors have pleasure in submitting their report together with the financial statements of Botswana Building Society for the year ended 31 March 2014.

Business activities

Botswana Building Society (the Society) is domiciled in Botswana. The Society is primarily involved in property finance and provision of banking services.

Dividends

A gross dividend of P59 124 503 was declared and paid to Indefinite Period Shareholders (2013: P58 411 020).

Board of directors

Mr. Cross Kgosiidiile
Mrs. Tsetsele C. Fantan
Mr. Simon Hirschfeld
Mrs. Mareledi Segotso
Mr. Kelebamang Motlhanka
Mr. James Kamyuka
Mr. Gerald N. Thipe
Mr. Frederick Selolwane
Mr. Pius K. Molefe

Chairman
Member
Member
Member
Member
Member
Member
Managing Director

Registered address

Plot 13108-112
Broadhurst
Gaborone, Botswana

Auditors

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

Stated capital

The Society issued 107.7 million Indefinite Period Shares during the current financial year (2013: 134.7 million) at P1 per share.

Events occurring after reporting date

The directors are not aware of any matters or circumstances arising since the end of the financial year up until the date the financial statements were authorised for issue, not dealt with in the report or the financial statements that would significantly affect the operations of the Society or the results of its operations.

Results

The Society's results are disclosed in the statement of comprehensive income on page 39 and reflect the following:

- Operating income of P188.583 million (an increase of 6.37% from 2013).
- Profit for the year of P68.035 million (a decrease of 4.35% from 2013).

Independent Auditor's Report

To the members of Botswana Building Society



Chartered Accountants
Plot 67977
Off Tlokweng Road
Fairground Park

P.O. Box 1519
Gaborone
Botswana

Telephone: (+267) 391 2400
Fax: (+267) 397 5281
Internet <http://www.kpmg.com>

We have audited the financial statements of Botswana Building Society, which comprise the statement of financial position at 31 March 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 90.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Building Societies Act (CAP 42:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on

Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

To the members of Botswana Building Society

Opinion

In our opinion, these financial statements give a true and fair view of the financial position of Botswana Building Society at 31 March 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Building Societies Act (CAP 42:03).

Report on other legal and regulatory requirements

In accordance with Section 54 of the Building Societies Act (CAP 42:03) we confirm that in our opinion;

- Botswana Building Society has kept proper books of account with which the financial statements are in agreement,
- we have satisfied ourselves as to the existence and contents of mortgage bonds and other securities belonging to Botswana Building Society, and
- Botswana Building Society has complied with all the financial provisions of the Building Societies Act (CAP 42:03).



KPMG

Certified Auditors

Practicing member: AG Devlin (19960060:23)

Date: 10 July 2014

Place: Gaborone

Statement of Financial Position

As at 31 March 2014

	Notes	2014 P'000	2013 P'000
Assets			
Cash and cash equivalents	6	106 946	112 162
Fixed deposits with banks	7	207 603	305 351
Short term loans and advances to customers	8	78 939	66 819
Properties-in-possession	9	6 975	906
Mortgage loans and advances to customers	10	2 526 238	2 288 195
Intangible assets	11	2 979	2 857
Property and equipment	12	102 200	104 972
Other assets	13	12 641	15 671
Total assets		3 044 521	2 896 933
Liabilities			
Customers' savings and fixed deposit accounts	14	646 665	591 698
Paid up and subscription shares	15	483 555	489 988
Withholding tax	16	3 348	3 078
Borrowings	17	921 611	949 499
Other liabilities	18	38 105	28 025
Total liabilities		2 093 284	2 062 288
Equity			
Indefinite period shares	19	726 712	619 030
Retained earnings		58 531	56 425
Statutory reserve	19	101 994	95 190
General "market risk" reserve	19	64 000	64 000
Total equity		951 237	834 645
Total liabilities and equity		3 044 521	2 896 933

Statement of Comprehensive Income

For the Year Ended 31 March 2014

	Notes	2014 P'000	2013 P'000
Interest income	20	284 578	278 478
Interest expense	21	(126 281)	(127 649)
Net interest income		158 297	150 829
Fee and commission income	22	26 168	23 298
Fee and commission expense	22	(1 175)	(1 185)
Net fee and commission income		24 993	22 113
Revenue		183 290	172 942
Other operating income	23	5 293	4 346
Operating income		188 583	177 288
Impairment loss on financial assets	24	6 979	1 373
Personnel expenses	25	58 047	57 380
Depreciation and amortisation	26	7 263	4 879
Operating lease expenses	27	2 042	2 021
Other expenses	28	46 217	40 503
Total expenses		120 548	106 156
Profit for the year		68 035	71 132
Total comprehensive income for the year		68 035	71 132
Basic and diluted earnings per share (thebe)	30	11.2	13.8

Statement of Changes in Equity

For the year ended 31 March 2014

	Indefinite period shares P'000	Statutory reserve P'000	General market risk reserve P'000	Retained earnings P'000	Total equity P'000
Balance at 31 March 2012	484 330	88 077	64 000	50 817	687 224
Total comprehensive income					
Profit	-	-	-	71 132	71 132
Transactions with owners of the society					
Issue of new shares	134 700	-	-	-	134 700
Dividends paid	-	-	-	(58 411)	(58 411)
Transfers during the year	-	7 113	-	(7 113)	-
Total contributions and distributions	134 700	7 113	-	(65 524)	76 289
Balance as at 31 March 2013	619 030	95 190	64 000	56 425	834 645
Total comprehensive income					
Profit	-	-	-	68 035	68 035
Transactions with owners of the society					
Issue of new shares	107 682	-	-	-	107 682
Dividends paid	-	-	-	(59 125)	(59 125)
Transfers during the year	-	6 804	-	(6 804)	-
Total contributions and distributions	107 682	6 804	-	(65 929)	48 557
Balance at 31 March 2014	726 712	101 994	64 000	58 531	951 237

Refer to note 19 for details on the Society's reserves

Statement of Cash Flows

For the year ended 31 March 2014

	2014 P'000	2013 P'000
Cash flows from operating activities		
Interest receipts	284 266	280 430
Commission receipts	26 168	23 298
Interest payments	(124 634)	(128 020)
Commission payments	(1 175)	(1 185)
Other operating income	6 707	4 532
Cash payments to employees and suppliers	(100 616)	(88 650)
	90 716	90 405
Movement in:		
- Short term loans and advances	(12 120)	(2 715)
- Mortgage loans and advances	(249 315)	(363 714)
- Property in possession (net)	(6 069)	(706)
- Other assets	1 928	1 796
- Customer savings and fixed deposit accounts	54 967	152 810
Net cash used in operating activities	(119 893)	(122 124)
Cash flows from investing activities		
Purchase of property and equipment	(3 353)	(14 708)
Fixed deposits with banks	97 748	(39 975)
Investment securities held to maturity	-	26 450
Purchase of intangible assets	(1 270)	(87)
Net cash used in investing activities	93 125	(28 320)

Statement of Cash Flows

For the year ended 31 March 2014

◀◀ CONTINUED

	2014 P'000	2013 P'000
Cash flows from financing activities		
Gross proceeds from new borrowings	-	150 000
Repayments of borrowed funds and debt securities	(27 888)	(25 389)
Proceeds from issue of indefinite paid up shares	107 682	134 700
Issue/redemption of paid up subscription shares (net)	(6 433)	2 927
Dividends paid	(51 809)	(58 411)
Net cash received from financing activities	21 552	203 827
Movement in cash and cash equivalents	(5 216)	53 383
Cash and cash equivalents at beginning of the year	112 162	58 779
Cash and cash equivalents at end of the year	106 946	112 162

Notes to the Financial Statements

For the year ended 31 March 2014



1. Reporting entity

Botswana Building Society is domiciled in Botswana. The address of the Society's registered office is Plot 13108-112 Broadhurst, Gaborone.

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

2. Basis of preparation

(i) Statement of compliance

The Society's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) and the Building Societies Act (Cap 42:03) of Botswana. The financial statements are prepared under the historical cost basis except for the revaluation of certain financial assets which are measured at fair value. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The preparation of the Society's financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Society's accounting policies. The areas requiring a higher degree of judgment or complexity,

or areas where assumptions and estimates are significant to the Society's financial statements are disclosed in the key sources of estimation uncertainty section of the financial statements below.

(ii) Functional and presentation currency

The financial statements are presented in Botswana Pula, which is the Society's functional and presentation currency. Except as indicated, financial information presented in Botswana Pula, has been rounded to the nearest thousand.

(iii) Key sources of estimation uncertainty

Allowances for credit losses

The specific component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are separately approved by the Credit Risk Function.

Notes to the Financial Statements

For the year ended 31 March 2014



Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired items cannot yet be identified. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Residual values of property and equipment

Residual values of buildings are based on current estimates of the values of these assets at the end of their useful lives. The estimated residual value of the buildings has been determined by the management based on information provided by property experts.

3. New standards and interpretations not yet effective

The following new standards, amendments to standards and interpretations relevant for the Society are in issue and not yet effective for the year ended 31 March 2014, and have not been applied in preparing these financial statements.

IAS 32: Financial Instruments

Presentation: Offsetting Financial Assets and Financial

These amendments require entities to disclose information that will enable the users of the financial statements to evaluate the effect or potential effect of netting arrangements of financial assets and liabilities, including rights of set-off associated with the entity's recognised financial assets and liabilities, on the entity's financial position.

The adoption of these amendments in 2015 financial year is expected to have no impact on the financial statements of the Society.

IFRS 9: Financial instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date of IFRS 9 was 1 January 2015. The effective date has been postponed and a new date is yet to be specified. The entity will adopt the standard in the first annual period beginning on or after the mandatory effective date (once specified). The impact of the adoption of IFRS 9 has not yet been estimated as the standard is still being revised and impairment and macro-hedge accounting guidance is still outstanding.

Notes to the Financial Statements

For the year ended 31 March 2014



4. Significant accounting policies

The accounting policies have been consistently applied by the Society and are consistent with those used in the previous year.

(a) Interest

Interest income and interest expenses are recognised in the statement of profit or loss or comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(b) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income and expenses relate mainly to transaction and service fees, which are recognised as the services are performed and received.

(c) Dividends

Dividend income is recognised when the right to receive payment is established.

Dividends paid are recorded in the Society's financial statements, based on rates determined by the Board of Directors from time to time.

(d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Notes to the Financial Statements

For the year ended 31 March 2014



(d) **Leases (continued)**

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease. Lease incentives are considered as integral part of the total lease expense.

• **Where the Society is the lessor**

The total contractual lease payments are charged against trading profit on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

• **Where the Society is the lessee**

Receipts of operating lease payments from properties are accounted for as rental income on the straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of penalty is recognised as income in the period in which the termination takes place.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(e) **Income tax**

The Society is exempt from paying income tax as per paragraph (vi), Part I of the Second Schedule of the Income Tax Act (Cap 50:01).

(f) **Recognition of assets and liabilities**

Assets are recognised when the Society obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the Society. Where, as a result of past events, it is highly likely that economic benefits will flow to the Society but will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events, which are not wholly within the control of the Society, a contingent asset is recognised.

Liabilities, including provisions, are recognised when the Society has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

No liability is recognized when:

- the Society has a possible obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Society; or
- it is not probable that an outflow of resources will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Notes to the Financial Statements

For the year ended 31 March 2014



(g) **Financial instruments**

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

(i) **Classification**

The Society classifies its financial assets and liabilities in the following categories:

- loans and receivables;
- available-for-sale;
- fair value through profit or loss;
- held to maturity.

Management determines the classification of its investments at initial recognition.

(ii) **Derecognition of financial instruments**

Financial asset

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive contractual cash flows in a transaction in which substantially all the risks and rewards of ownership are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liability

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) **Offsetting of financial instruments**

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

(iv) **Amortised cost measurement**

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial assets or financial liability is measured at initial recognition, minus principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount minus any reduction for impairment.

(v) **Fair value measurement**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Society has access at that date. The fair value of a liability reflects its non-performance risk.

Notes to the Financial Statements

For the year ended 31 March 2014



(g) **Financial instruments (continued)**

(vi) **Impairment of financial assets**

Assets carried at amortised cost

The Society 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. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Society about the following events:

- significant difficulty of the issuer or obligator;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Society granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Society would not otherwise consider;

- it becoming probable that the borrower will enter bankruptcy or other financial re-organisation;
- the disappearance of an active market for the financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets held by the Society, including: adverse changes in the payment status of borrowers in the Society or national or local economic conditions that correlate with defaults on the assets in the Society.

The Society first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Society determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to the Financial Statements

For the year ended 31 March 2014



(g) **Financial instruments (continued)**

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate. The amount of the loss is recognised in profit or loss.

A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors, in assessing objective evidence of impairment for equity securities. Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Impairment losses recognised in equity are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(h) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(i) **Properties in possession**

Properties in possession consist of residential and commercial properties repossessed from defaulting mortgage loan bond holders. Such properties are held with the express intention to sell in the short to medium term and are recorded at the lower of cost of repossession and net realisable value. Cost of repossession is determined with reference to the outstanding capital balance on the mortgage loan at the date of default. The net realisable value is determined with reference to current market values for comparable properties net of estimated marketing and selling expenses.

(j) **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Notes to the Financial Statements

For the year ended 31 March 2014



(j) **Property and equipment (continued)**

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised in profit or loss.

Land is not depreciated. Depreciation on other assets is provided on a straight line basis. This is from the time they are available for use, so as to write off their costs over the estimated useful lives taking into account any residual values. The residual value of an asset may be less than or equal to the asset's carrying amount. In this case, the assets depreciation is nil until the carrying amount exceeds the residual value.

The estimated useful lives assigned to property and equipment are as follows:

Leasehold property	the lower of 50 years or lease period
Freehold property	50-80 years
Motor vehicles	6-8 years
Computer hardware	3-5 years
Equipment, furniture and fittings	4-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Work-in-progress represent the amount of expenditure recognised in the course of construction.

(k) **Intangible assets**

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Society and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Computer software acquisition costs recognised as intangible assets are amortised using the straight line method over their useful lives, not exceeding a period of five years.

(l) **Impairment of non-financial assets**

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows or CGU.

Notes to the Financial Statements

For the year ended 31 March 2014



(l) **Impairment of non-financial assets (continued)**

In assessing the fair value of financial instruments, the Society uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The face values, less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, are assumed to approximate their fair values.

(m) **Customer' savings and fixed deposit accounts**

Amounts due to customers on savings and fixed deposit accounts comprise deposits held on behalf of members of the public and corporate bodies and are initially recorded at the fair value of the consideration received. Such accounts are subsequently measured at amortised cost. All ordinary and special savings accounts are repayable on demand. Fixed deposits are repayable on maturity.

(n) **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

Borrowings obtained from the Debt Participation Capital Funding Limited (DPCFL) loans at rates below the ruling market rates are originally recorded at amortised cost, determined based on the effective interest method.

Under this method, the fair value of the borrowing is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate. The difference between the borrowing received and the amortised cost is recognised as income when the borrowing is received and unwinds to interest expense over the period of the loan based on the effective interest yield curve.

Shares which are redeemable on specific terms or at the option of the shareholder or which carry non-discretionary dividend obligations are classified as liabilities. The dividends on these shares are recognised in the statement of profit or loss and other comprehensive income as interest expense.

(o) **Retirement benefits**

The Society operates a defined contribution pension fund for all its permanent citizen staff. This fund is registered under the Pensions and Provident Funds Act (Chapter 27:03). The Society contributes to the fund 15% of the pensionable earnings of the members and the employees contribute 7% of their pensionable earnings. The Society's contributions are charged to the statement of profit or loss and other comprehensive income in the year in which they accrue. Other than regular contributions made in terms of the rules of the fund, the Society does not have any further liability to the fund.

Notes to the Financial Statements

For the year ended 31 March 2014



(p) **Other employee benefits**

Employees on contract receive terminal gratuities in accordance with their contracts of employment. An accrual is made for the estimated liability towards such employees up to the reporting date. All other employees are members of the Society's pension scheme and do not qualify for such terminal gratuities. Employees' entitlement to annual leave and other benefits is recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and other benefits as a result of services rendered up to the reporting date.

(q) **Indefinite period shares and reserves**

The Society classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Society's indefinite period shares are not redeemable at the option of the holders, and bear an entitlement to distributions that is non-cumulative and at the discretion of the Directors. Accordingly they are presented as a component of issued capital within equity.

(r) **Related party transactions**

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

5. Financial risk management

Introduction and overview

The Society manages the enterprise wide risks assumed by the Society through the Risk Department. The Society will be adopting the Basel II Risk Management Framework for the management of risks it is exposed to. It is also intended to enhance the Society's management of its capital.

The Society has exposure to the following risks from its use of financial instruments:

- Credit risk
- Interest rate risk
- Liquidity risk
- Operational risk

This note presents information about the Society's exposure to each of the above risks, the Society's objectives, policies and processes for measuring and managing risk, and the Society's management of capital.

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board has the following sub committees:

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

The above Board Sub-committees and Board convene on a quarterly basis. The Society's Board and its committees are comprised of eight non-executive directors and one executive director. Management reports risk management matters to the Board Finance and Audit Committee.

The Risk Department focuses on different risk classes. The department currently manages the Asset and Liability Management (ALM), Operational Risk and other risk classes and Treasury activities. The Society has embarked on a project to review the enterprise-wide risk framework to ensure alignment to Basel II and ensure the Society remains well capitalized and its capital is reflective of the underlying economic risks it is exposed to.

The Society's risk management policies are established to identify and analyse the risks faced by the Society, 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 Society 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 Internal Audit Department is tasked with the responsibility of monitoring compliance with the Society's risk management policies and procedures. The Internal Audit Department reports to the Finance and Audit Committee. The Board is currently responsible for reviewing the adequacy of the risk management framework in relation to the risks faced by the Society.

(i) Credit risk

Credit risk is the risk of financial loss to the Society if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Society's loans and advances to customers, balances with banks and investments in debt securities. For risk management reporting purposes, the Society considers and consolidates all elements of credit risk exposure (such as individual obligator default risk and sector risk).

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(i) Credit risk (continued)

For management of credit risk, the Society 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.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to Senior Management. The Risk Department is responsible for oversight of the Society's credit risk, including:

- Formulating credit policies in consultation with the business units, covering collateral requirements, credit assessments, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit underwriting unit which reports to the Head of Operations. Larger facilities require approval by the Credit Approvals Committee and the Global Risk Management Committee. Any loans which are more than 5% of the Society's capital require approval by the Board of Directors.
- Reviewing and assessing credit risk. The Society assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals of facilities are subject to the same review process.
- Limiting concentration of exposure to counterparties, geographies and industries (for loans and advances).
- Developing and maintaining the Society'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 Risk Management Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for sector and individual exposure. Reports are provided to the Board every quarter.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Society in the management of credit risk.

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

5. Financial risk management (continued)

Risk Management framework (continued)

	Loans and advances to customers 2014 P'000	Loans and advances to customers 2013 P'000
Carrying amount		
Long term loans	2 526 238	2 288 195
Short term loans	78 939	66 819
	2 605 177	2 355 014
Individually impaired (specific)		
Residential	52 377	43 183
Commercial	3 523	1 595
Gross amount	55 900	44 778
Allowance for impairment	(18 458)	(16 659)
	37 442	28 119
Collectively impaired		
Gross amount	2 492 426	2 263 390
Allowance for impairment	(3 630)	(3 314)
	2 488 796	2 260 076
Past due but not impaired comprises:		
30-60 days	269 642	156 847
60-90 days	44 434	69 065
90-180 days	62 752	39 593
180 days +	47 853	33 277
	424 681	298 782
The Society writes off loan balances (and any related allowances for impairment losses) when the Society determines that the loans are uncollectable as per the impairment policy, refer to note 5(iii)		
Past due accounts as a proportion of total loans	17%	13%
Number of loans individually impaired	82	91

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

Impaired loans and securities

Impaired loans are loans for which the Society determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

Loans where contractual interest or principal payments are past due but the Society 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 the Society.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Society has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category irrespective of satisfactory performance after restructuring.

Allowances for impairment

The Society 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 Society's homogeneous assets in respect of losses that have been incurred but have not been identified.

Impairment policy

The Society writes off loan balances (and any related allowances for impairment losses) when the Society 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 pay back the entire exposure.

Bank balances

The Society held bank balances of P313 million as at 31 March 2014 (2013: P412 million) which represents its maximum credit exposure on these assets. The bank balances are held with licensed financial institutions and consist of current, call and fixed deposit accounts. Management has set exposure limits for the different financial institutions to minimise credit risk on bank balances.

Collateral

The Society 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.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

5. Financial risk management (continued)

Risk Management framework (continued)

An estimate of the fair value of collateral and other tangible security enhancements held against financial assets is shown below:

	Loans and advances to customers 2014 P'000	Loans and advances to customers 2013 P'000
Against individual impaired Property	58 212	50 064
Against collectively impaired Property	5 549 143	4 722 980
Against short term loans not impaired Cash deposit	78 939	66 819
Total	5 686 294	4 839 863
Carrying amount as a proportion of collateral cover	45%	47%

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of liquidity risk

The Society'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 Society's reputation. The Society is exposed to daily calls on its available cash resources from deposits, maturing shares and loan draw downs. The Society 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 Society 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 Society is monitored on a daily basis. For regulatory purposes, the Building Societies Act, Section 42, requires the Society to maintain certain proportions of its liabilities in liquid assets. The Society also submits a monthly report to the Central Bank which includes the liquidity position.

	As at 31 March 2014 P'000	As at 31 March 2013 P'000
Total statutory requirement	216 875	211 492
Total cash and cash equivalents, investments or authorized deposits	314 549	417 513
Surplus	97 674	206 021

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

Exposure to liquidity risk

The liquidity requirement is managed in accordance with the Building Societies Act Section 42 which states that every society shall, after making provisions to meet its liabilities other than those mentioned in this section, from day to day hold an amount in cash or on authorised deposits or in approved investments as security for prompt repayment of fixed period and subscription shares and of deposits, loans and overdraft and for the payment of interest accrued thereon.

The Society was granted a variation to the requirements of Section 42. The variation now permits the Society to hold 10% deposit balances as liquid assets as compared to holding an average of 25% of deposits as liquid assets before 1 April 2012.

The Board of Directors sets limits on the level of risk that may be accepted. The Building Societies Act sets limits within which the Society should operate as regards to concentrations of assets and liabilities. However, use of this limit regime does not prevent losses outside of these limits in the event of more significant market movements.

The table below show the undiscounted cash flows of the Society's assets and liabilities on the basis of their earliest possible contractual maturity. The Society's expected cash-flows on some financial assets and liabilities vary significantly from contractual cash-flows. For example, demand deposits from customers are expected to maintain a stable and increasing balance, and unrecognised loan commitments are not all expected to be drawn down immediately. Also, retail mortgage loans have an original contractual maturity of up to 30 years but lower average expected maturities as customers take advantage of early repayment periods. As part of the management of its liquidity risk arising from financial liabilities, the Society holds liquid assets comprising cash and cash equivalents to meet liquidity requirements.

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

5. Financial risk management (continued)

Risk Management framework (continued)

The summary of the Society's contractual liquidity gap position is as follows:

	On demand P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non financial instruments P'000	Total P'000
As at 31 March 2014							
Financial assets							
Cash and cash equivalents	106 946	-	-	-	-	-	106 946
Fixed deposits with banks	-	88 332	103 833	15 438	-	-	207 603
Short term loans and advances to customers	53	143	3 724	75 019	-	-	78 939
Property in possession	-	-	-	-	-	6 975	6 975
Mortgage loans and advances to customers	851	1 694	8 964	46 594	2 468 135	-	2 526 238
Intangible assets	-	-	-	-	-	2 979	2 979
Property and equipment	-	-	-	-	-	102 200	102 200
Other assests	269	530	1 043	8 011	-	2 788	12 641
Total assets	108 119	90 699	117 564	145 062	2 468 135	114 942	3 044 521
Financial liabilities							
Customer savings and fixed deposit accounts	291 525	123 663	195 386	36 091	-	-	646 665
Other liabilities	-	-	-	-	-	38 105	38 105
Borrowings	1 643	26 249	38 827	512 179	342 713	-	921 611
Paid up and subscription shares	-	-	-	483 555	-	-	483 555
Indefinite period shares	-	-	-	-	-	726 712	726 712
Withholding tax on dividends	-	-	-	-	-	3 348	3 348
Statutory reserve	-	-	-	-	-	101 994	101 994
General reserve	-	-	-	-	-	64 000	64 000
Revenue reserve	-	-	-	-	-	58 531	58 531
Total equity and liabilities	293 168	149 912	234 213	1 031 825	342 713	992 690	3 044 521
Net Liquidity Gap	(185 049)	(59 213)	(116 649)	(886 763)	2 125 422	(877 748)	-

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

5. Financial risk management (continued)

Risk Management framework (continued)

	On demand P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non financial instruments P'000	Total P'000
As at 31 March 2013							
Financial assets							
Cash and cash equivalents	112 162	-	-	-	-	-	112 162
Fixed deposits with banks	-	170 351	90 000	-	45 000	-	305 351
Short term loans and advances to customers	-	6 071	18 213	42 535	-	-	66 819
Property in possession	-	-	-	-	-	906	906
Mortgage loans and advances to customers	-	16 020	50 863	357 532	1 863 780	-	2 288 195
Intangible assets	-	-	-	-	-	2 857	2 857
Property and equipment	-	-	-	-	-	104 972	104 972
Other assests	-	3 170	773	7 972	-	3 756	15 671
Total assets	112 162	195 612	159 849	408 039	1 908 780	112 491	2 896 933
Financial liabilities							
Customer savings and fixed deposit accounts	343 382	52 146	93 109	103 045	16	-	591 698
Other liabilities	-	28 025	-	-	-	-	28 025
Borrowings	-	27 996	40 426	116 995	764 082	-	949 499
Paid up and subscription shares	-	-	-	489 988	-	-	489 988
Indefinite period shares	-	-	-	-	-	619 030	619 030
Withholding tax on dividends	-	-	-	-	-	3 078	3 078
Statutory reserve	-	-	-	-	-	95 190	95 190
General reserve	-	-	-	-	-	64 000	64 000
Revenue reserve	-	-	-	-	-	56 425	56 425
Total equity and liabilities	343 382	108 167	133 535	710 028	764 098	837 723	2 896 933
Net Liquidity Gap	(231 220)	87 445	26 314	(301 989)	1 144 682	(725 232)	-

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(iii) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Society's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Society's operations and are faced by all business entities. The Society's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Society'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. This responsibility is supported by the development of overall Society standards for the management of

operational risk in the following areas:

1. Requirements from appropriate segregation of duties, including the independent authorization of transactions
 2. Requirements for the reconciliation and monitoring of transactions
 3. Compliance with regulatory and other legal requirements
 4. Documentation of controls and procedures
 5. Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
 6. Requirements for the reporting of operational losses and proposed remedial action
 7. Development of contingency plans
 8. Training and professional development
 9. Ethical and business standards
 10. Risk mitigation, including insurance where this is effective
- Compliance with the Society's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Management of the business unit to which they relate, with summaries submitted to the Finance and Audit Committee and Executive Management of the Society.

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(iv) Interest rate risk

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 Society'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 the profit or loss.

Overall non-trading interest rate risk positions are managed by treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from non-trading activities. The Society is precluded by the Building Societies Act to the use of any derivatives to manage interest rate risk.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

5. Financial risk management (continued)

Risk Management framework (continued)

The profile of assets and liabilities and the interest sensitivity gap is given below:

Interest sensitivity gap analysis

	0-3 months P'000	3-12 months P'000	1-2 years P'000	2-5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
As at 31 March 2014							
Financial assets							
Cash and cash equivalents	96 981	-	-	-	-	9 965	106 946
Fixed deposits with banks	88 332	119 271	-	-	-	-	207 603
Short term loans and advances to customers	78 939	-	-	-	-	-	78 939
Property in possession	-	-	-	-	-	6 975	6 975
Mortgage loans and advances to customers	2 431 722	3 309	14 610	14 487	62 110	-	2 526 238
Intangible assets	-	-	-	-	-	2 979	2 979
Property and equipment	-	-	-	-	-	102 200	102 200
Other assets	7 669	-	-	-	-	4 972	12 641
Total assets	2 703 643	122 580	14 610	14 487	62 110	127 091	3 044 521
Financial liabilities							
Customers' savings and fixed deposit accounts	424 755	110 394	110 868	648	-	-	646 665
Other liabilities	-	-	-	-	-	41 453	41 453
Borrowings	207 483	200 225	110 000	166 311	237 592	-	921 611
Paid up and subscription shares	483 555	-	-	-	-	-	483 555
Indefinite period shares and reserves	-	726 712	-	-	-	224 525	951 237
Total liabilities	1 115 793	1 037 331	220 868	166 959	237 592	265 978	3 044 521
Net interest sensitivity gap	1 587 850	(914 751)	(206 258)	(152 472)	(175 482)	(138 887)	-

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

5. Financial risk management (continued)

Risk Management framework (continued)

The profile of assets and liabilities and the interest sensitivity gap is given below:

Interest sensitivity gap analysis

	0-3 months	3-12 months	1-2 years	2-5 years	Over 5 years	Non-interest bearing	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
As at 31 March 2013							
Financial assets							
Cash and cash equivalents	112 162	-	-	-	-	-	112 162
Fixed deposits with banks	170 351	90 000	-	-	45 000	-	305 351
Short term loans and advances to customers	66 819	-	-	-	-	-	66 819
Property in possession	-	-	-	-	-	906	906
Mortgage loans and advances to customers	2 062 596	20	4 150	5 828	215 601	-	2 288 195
Intangible assets	-	-	-	-	-	2 857	2 857
Property and equipment	-	-	-	-	-	104 972	104 972
Other assets	-	-	-	-	-	15 671	15 671
Total assets	2 411 928	90 020	4 150	5 828	260 601	124 406	2 896 933
Financial liabilities							
Customers' savings and fixed deposit accounts	395 528	93 109	99 504	3 541	16	-	591 698
Other liabilities	-	-	-	-	-	31 103	31 103
Borrowings	559	-	201 508	392 388	355 044	-	949 499
Paid up and subscription shares	489 988	-	-	-	-	-	489 988
Indefinite period shares and reserves	-	-	-	-	619 030	215 615	834 645
Total liabilities	886 075	93 109	301 012	395 929	974 090	246 718	2 896 933
Net interest sensitivity gap	1 525 853	(3 089)	(296 862)	(390 101)	(713 489)	(122 312)	-

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(v) Capital management

To monitor the adequacy of its capital, the Society uses ratios established by the Bank of Botswana. These ratios measure capital adequacy by comparing the Society'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 capital requirements are based on the Basel II framework. The Society is working towards ensuring compliance to Basel II by December 2014.

For prudential supervisory purposes, Tier 1 capital consists of indefinite period shares together with the general, statutory reserves and retained earnings reserves. The Society'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 Society has complied with all externally imposed capital requirements throughout the period. The capital adequacy ratio was 59.30% as at 31 March 2014 (2013: 57.83%). The high ratio is as a result of the requirements of the Building Societies Act (Section 41) which requires the Society to hold certain amounts of permanent share capital (Indefinite shares) as a proportion of borrowings. The minimum capital adequacy rate as set by the Bank of Botswana is 15%.

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

5. Financial risk management (continued)

Risk Management framework (continued)

		2014 P'000	2013 P'000
Capital adequacy			
Tier 1 capital			
Stated capital		726 712	619 030
Other revenue reserves		224 525	215 615
		951 237	834 645
Tier 2 capital			
Collective impairment		3 630	3 314
Total unimpaired capital		954 867	837 959
Risk weighted assets			
	Risk weight		
Due from domestic banks (under 1 year)	20%	61 842	79 313
Residential loans	50%	1 137 991	1 042 840
Commercial loans	100%	288 665	202 513
Property and equipment	100%	102 200	107 829
Other real estate (PIP)	100%	6 975	906
Other assets	100%	12 641	15 671
Total risk-weighted assets		1 610 314	1 449 072
Capital adequacy ratio			
Capital adequacy ratio		59.30%	57.83%
Regulatory requirement		15.00%	15.00%

Notes to the Financial Statements

For the year ended 31 March 2014



5. Financial risk management (continued)

Risk Management framework (continued)

(vi) Valuation of financial instruments

Financial instruments carried at fair value are categorised in three levels by valuation method. The different levels have been defined as follows:

Level 1:

quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:

inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using:

- quoted market prices in active markets for similar instruments;
- quoted prices for identical or similar instruments in markets that are considered less than active; or
- other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:

inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between instruments.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

6. Cash and cash equivalents	2014 P'000	2013 P'000
Cash balances	5 337	5 949
Balances with banks (call and current accounts)	45 431	48 419
Money market balances	56 178	57 794
	106 946	112 162
Interest rates on current, call and money market accounts range from 0% to 6.56%.		
7. Fixed deposits with banks		
Fixed deposits with banks	207 603	305 351
Fixed deposits have a term of up to six months at interest rates ranging from 6.4% to 7.25%. Fixed deposits of P15.1 million (2013: P15 million) are pledged as security against borrowings. Refer note 17.		
8. Short term loans and advances to customers		
	78 939	66 819

All short term loans are for periods of between six and sixty months, bear interest ranging between 12% to 12.5% per annum and are secured by Paid up shares and Subscription shares.

Notes to the Financial Statements

For the year ended 31 March 2014



9. Properties-in-possession	2014 P'000	2013 P'000
Balance at beginning of the year	906	200
Repossessions during the year	6 733	906
Disposals during the year	(400)	(85)
Write down during the year	(264)	(115)
Balance at the end of the year	6 975	906
Number of properties in possession-residential	5	2

The properties-in-possession are premises the Society has repossessed and are accounted for at their estimated forced sale value.

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

10. Mortgage loans and advances to customers	2014 P'000	2013 P'000
Gross amounts	2 548 327	2 308 168
Impairment allowance	(22 089)	(19 973)
Carrying amount	2 526 238	2 288 195
Specific allowance for impairment		
Balance at the beginning of the year	7 768	6 236
Impairment loss for the year	751	1 542
Write back during the year	-	(10)
Balance at the end of the year	8 519	7 768
General (collective) impairment		
Balance at the beginning of the year	3 314	2 993
Impairment loss for the year	316	321
Balance at the end of the year	3 630	3 314
Interest in suspense		
Balance at the beginning of the year	8 891	7 955
Interest arising during the year	1 049	936
Balance at the end of the year	9 940	8 891

Mortgage loans are granted up to a maximum period of thirty years. The variable rate loans and advances amount to P2.414 billion and P134 million are at fixed rates of interest.

Interest is charged at rates between 8.25% and 15.5% and loans are secured by a first mortgage bond against the financed property. The rate of interest on staff mortgage loans is half of prime rate. The Society lends up to 90% of the market value of the property being financed.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

11. Intangible assets	2014	2013
Cost	P'000	P'000
Balance at the beginning of the year	6 616	12 968
Acquisitions	1 270	87
Disposal	-	(6 439)
Balance at the end of the year	7 886	6 616
Accumulated Amortisation		
Balance at the beginning of the year	3 759	9 082
Amortisation for the year	1 148	1 069
Disposals	-	(6 392)
Balance at the end of the year	4 907	3 759
Carrying amounts		
As at beginning of the year	2 857	3 886
As at end of the year	2 979	2 857

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

12. Property and equipment	Freehold property P'000	Freehold land P'000	Leasehold property P'000	Leasehold land P'000	Equipment, furniture and fittings P'000	Computer hardware P'000	Motor vehicles P'000	WIP P'000	Total P'000
Balance at 1 April 2012	1 264	515	49 400	4 223	16 471	12 773	373	39 906	124 925
Acquisitions	-	-	-	-	1 367	3 714	-	9 627	14 708
Transfers	31 503	-	-	-	8 354	-	-	(39 857)	-
Disposals	-	-	-	-	(11 850)	(8 924)	-	-	(20 774)
Balance at 31 March 2013	32 767	515	49 400	4 223	14 342	7 563	373	9 676	118 859
Acquisitions	-	-	-	-	156	1 145	-	2 052	3 353
Transfers	1 201	-	-	-	1 368	-	-	(2 569)	-
Disposals	-	-	-	-	(12)	-	-	-	(12)
Balance at 31 March 2014	33 968	515	49 400	4 223	15 854	8 708	373	9 159	122 200
Accumulated depreciation									
Balance as at 1 April 2012	-	-	6 031	-	12 758	10 040	206	-	29 035
Charge for the year	-	-	674	-	2 209	885	41	-	3 809
Disposals	-	-	-	-	(10 039)	(8 918)	-	-	(18 957)
Balance at 31 March 2013	-	-	6 705	-	4 928	2 007	247	-	13 887
Charge for the year	-	-	1 318	-	3 374	1 382	41	-	6 115
Disposals	-	-	-	-	(2)	-	-	-	(2)
Balance at 31 March 2014	-	-	8 023	-	8 300	3 389	288	-	20 000
Carrying amounts									
As at 31 March 2012	1 264	515	43 369	4 223	3 713	2 733	167	39 906	95 890
As at 31 March 2013	32 767	515	42 695	4 223	9 414	5 556	126	9 676	104 972
As at 31 March 2014	33 968	515	41 377	4 223	7 554	5 319	85	9 159	102 200

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

13. Other assets	2014 P'000	2013 P'000
Rent debtors	664	2 078
Staff debtors	7 669	8 629
Prepayments and other debtors	2 788	3 756
Accrued interest on fixed deposits	1 520	1 208
	12 641	15 671
<p>Staff debtors are unsecured loans and advances to staff for purchase of motor vehicles, furniture and other personal effects. The loans are given at half of the prime rate. The term of staff loans vary from 6 months to 60 months.</p>		
14. Customers' savings and fixed deposit accounts		
Fixed deposits	118 554	108 800
Letsibogo	87 353	73 655
Tlamele mortgage savings	9 625	5 818
Ordinary and special savings	204 038	216 553
Lerako (pensioners' savings account)	227 095	186 872
	646 665	591 698

Notes to the Financial Statements

For the year ended 31 March 2014



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

Fixed deposits have a term ranging from twelve months to sixty months and earn interest at between at 1.60% and 6.07% per annum. The Letsibogo savings product is repayable on demand and earns interest between 0.5% to 5.00% per annum.

Savings deposits are repayable on demand. The ordinary savings deposit accrues interest of 0.25% while the special savings earn interest between 0.5% and 2.75% per annum. Tlamelo mortgage savings accounts earn interest at 4.75% annually.

Lerako savings accounts earn interest between 4.25% and 7.75% per annum.

Interest earned on savings accounts is linked to the prime rate.

15. Paid up and subscription shares	2014 P'000	2013 P'000
Paid up share	426 982	436 352
Subscription shares	56 573	53 636
	483 555	489 988

Paid up shares are invested for a period of not less than 18 months and may be redeemed subject to the Board's approval upon 3 months' notice.

Early redemption is permitted with a proportionate forfeiture of dividend accrual.

Notes to the Financial Statements

For the year ended 31 March 2014



15. Paid up and subscription shares (continued)

The Board may, at its discretion, issue from time to time paid up and subscription shares and all such shares shall accrue dividends distributed out of the available profits of the Society. The rates of dividend on the shares shall be fixed by the Board at the time of issue and subsequently from time to time as the Board may, in its discretion decide.

Paid up shares and subscription shares earn coupon rates of 4.15% and 5.0% respectively.

16. Withholding tax	2014 P'000	2013 P'000
Tax liability	3 348	3 078
This relates to withholding tax on dividends and interest paid to the Society's members and customers due to Botswana Unified Revenue Services.		
17. Borrowings		
DPCFL loans	26 311	35 392
Unsecured long term-bonds	487 592	487 468
Stanbic Bank Botswana Limited	150 167	149 914
BancABC Botswana Limited	57 316	76 391
Stanlib Investment Management Services (Pty) Ltd	200 225	200 334
	921 611	949 499

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

17. Borrowings (continued)	2014 P'000	2013 P'000
Borrowing payable within one year		
DPCFL loans	11 707	12 688
Unsecured long term-bonds	47 414	48 472
Stanbic Bank Botswana Limited	42 225	9 805
BancABC Botswana Limited	23 340	23 661
Stanlib Investment Management Services (Pty) Ltd	11 774	9 205
	136 460	103 831
Borrowings payable after one year		
DPCFL loans	14 604	22 704
Unsecured long term-bonds	440 178	438 996
Stanbic Bank Botswana Limited	107 942	140 109
BancABC Botswana Limited	33 976	52 730
Stanlib Investment Management Services (Pty) Ltd	188 451	191 129
	785 151	845 668

DPCFL loans

Various unsecured DPCFL loans are repayable over periods to 2018, bear interest at rates between 7.5% and 9.5% per annum with repayments due semi-annually in arrears.

Notes to the Financial Statements

For the year ended 31 March 2014



17. Borrowings (continued)

Stanbic Bank Botswana Limited

The loan bears interest at Prime rate less 3.10% and is repayable over 60 months commencing 19 November 2012. The loan is secured by a pledge of a deposit account with a balance of P15 million.

BancABC Botswana Limited

The loan is unsecured, bears interest at Prime rate less 3% per annum and is repayable over 5 years commencing 2 November 2011.

Stanlib Investment Management Services (Pty) Ltd

The loan is unsecured, bears interest at the 91 day BOBC rate plus 170 basis points and is repayable over 2 years commencing 6 March 2013, with an option to rollover for another set of 2 years, up to 2018.

Unsecured long term-bonds

These bonds are listed on the Botswana Stock Exchange and are summarised below:

Number	Maturity date	Amount P'000	Type	Interest rate
BBS002	15 December 2016	140 000	Fixed	12.00%
BBS004	26 November 2019	75 000	Fixed	11.10%
BBS005	3 December 2023	150 000	Fixed	11.20%
BBS006	4 August 2018	110 000	Floating	91 days BOBC plus 1.50%

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

18. Other liabilities	2014 P'000	2013 P'000
Accounts payable	19 981	17 713
Other creditors	2 368	1 204
Dividend payable	7 316	-
Bonus provision	8 440	9 108
	38 105	28 025
Reconciliation of bonus provision		
Opening balance	9 108	4 000
Paid during the year	(9 068)	(6 194)
Provision	8 400	11 302
Closing balance	8 440	9 108

Notes to the Financial Statements

For the year ended 31 March 2014



19. Indefinite period shares and reserves	2014 P'000	2013 P'000
Indefinite period shares	726 712	619 030

The shareholder shall not be entitled at any time to demand redemption, but the Society shall be entitled to redeem the Shares, upon 6 months' notice, which may be tendered 12 months from the date of deposit.

The Board may, at its discretion, issue Indefinite period shares and all such shares shall accrue dividends distributed out of the available profits of the Society. The rates of dividends on the shares shall be fixed by the Board at the time of issue and subsequently from time to time as the Board may in its discretion decide. As at 31 March 2014 Indefinite period shares earn a coupon rate of 8% (2013: 10%).

Reserves

The statutory reserve fund is established in terms of Section 39 of the Building Societies Act. The Act requires the Society to set aside a minimum of 10% of its undistributed profits into the reserve fund. The Society may charge against the reserve fund any net loss remaining after applying such loss against any undistributed profits brought forward from previous years.

The general market risk reserve has been established in terms of Rule 73 of the Rules of the Botswana Building Society to cover general market risks. There are no restrictions on the application of funds in the general reserve. Undistributed profits are retained in the retained earnings reserve after apportioning a minimum of 10% of the annual profit/loss to the statutory reserve.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

20. Interest income	2014 P'000	2013 P'000
Cash and cash equivalents	19 478	21 903
Long term loans and advances	255 329	246 241
Short term loans and advances	9 771	8 136
Investments held to maturity	-	2 198
	284 578	278 478
 21. Interest expense		
DPOFL loans	3 608	4 541
Bonds	48 918	49 961
Term loans	26 464	24 989
Fixed period paid up and subscription shares	22 930	27 358
Fixed deposits	6 141	8 717
Savings accounts	18 220	12 083
	126 281	127 649

Notes to the Financial Statements

For the year ended 31 March 2014

 **CONTINUED**

22. Fee and commission income	2014 P'000	2013 P'000
Commission on other services	7 740	7 940
Transaction and loan origination fees	18 428	15 358
	26 168	23 298
Fee and commission expense		
Interbank transaction fees	1 175	1 185
23. Other operating income		
Rental income	4 425	4 257
Other	868	89
	5 293	4 346
24. Impairment loss on financial assets		
Specific impairment	1 799	2 468
General impairment	316	322
Net loss/(profit) on sale of properties	4 864	(1 417)
	6 979	1 373

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

25. Personnel expenses	2014 P'000	2013 P'000
Salaries and wages	40 802	41 300
Pension fund contributions	3 486	2 170
Bonus accrual-current year	8 440	9 108
Bonus accrual-prior year (over)/under provision	(40)	2 194
Leave pay accrual	1 033	1 333
Other employee expenses	33	-
Fair value adjustment-off market staff loans	4 293	1 275
	58 047	57 380
26. Depreciation and amortisation		
Depreciation expense	6 115	3 809
Amortisation expense	1 148	1 070
	7 263	4 879
27. Operating lease expenses		
Branch rentals	2 042	2 021

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

28. Other expenses	2014 P'000	2013 P'000
Director's fees	808	833
Audit fees	1 500	1 500
Advertising and marketing	5 152	4 741
Computer maintenance expense	4 310	2 080
Insurance	1 187	1 206
Legal and professional expenses	8 697	6 804
License fees	7 849	6 689
Repairs and maintenance	2 994	2 319
Stationery and printing	1 082	1 046
Telephone and postage	4 263	4 665
Travel and subsistence	834	1 482
Office supplies	1 137	1 004
Security expenses	1 544	1 312
Subscriptions	140	154
Other expenses	789	1 955
Net input VAT expensed	3 931	2 713
	46 217	40 503

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ **CONTINUED**

29. Dividend per share	2014 P'000	2013 P'000
The dividend per share has been calculated by dividing the dividend paid to Indefinite period shareholders by the number of Indefinite period shares at the time of payment.		
Dividend paid to Indefinite period shareholders	59 125	58 411
Average Indefinite period shares	684 181	597 340
Dividend per share (thebe)	8.6	9.8
30. Earnings per share		
Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of Indefinite shares during the year.		
Net profit attributed to shareholders	68 035	71 132
Weighted average number of Indefinite shares in issue	607 002	516 339
Earnings per share (thebe)	11.2	13.8
31. Operating lease arrangements		
At the balance sheet date, the Society had the following outstanding Commitments under operating leases for its branch rentals:		
Within one year	1 973	402
Two to five years	4 109	3 680
	6 082	4 082

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

32. Commitments	2014 P'000	2013 P'000
Commitment in respect of mortgages approved but not yet disbursed	184 010	167 898
Capital expenditure-approved but not yet committed	43 081	36 155
Capital expenditure-approved and committed	3 912	3 674
Commitments will be met from the Society's own resources.		
33. Related party transactions		
The Society transacts part of its business with related parties including directors and parties related to or under the control of the directors. Details of related party transactions of the Society are set out below:		
33.1 Amounts due to related parties:		
Savings accounts		
Held by the Society's Non Executive Directors	14 642	1 066
Held by the Society's Executive Management	1 018	979
	15 660	2 045
Paid up Permanent and Subscription shares		
Held by the Society's Non Executive Directors	982	9 700
Held by the Society's Executive Management	1 124	386
	2 106	10 086

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

33. Related party transactions (continued)	2014 P'000	2013 P'000
Borrowings		
Loan from Debt Participation Capital Fund Limited	26 311	35 392
Indefinite period paid-up shares		
Motor Vehicle Accident Fund	173 565	173 565
Botswana Privatisation Asset Holding Company	165 501	152 589
Botswana Police Services	130 073	119 925
Botswana Medical Aid Society	66 334	61 159
Total amounts due to related parties	535 473	507 238

The Botswana Privatisation Asset Holding Company is wholly owned by the Government of Botswana.

The Debt Participation Capital Fund Limited is a wholly owned Government company and has outstanding loans with the Society as noted above. Interest paid on the loans amounted to P3 608 000 (Note 17 and 21).

Notes to the Financial Statements

For the year ended 31 March 2014



33. Related party transactions (continued)	2014 P'000	2013 P'000
33.2 Amounts due from related parties:		
Mortgages		
Held by the Society's Non Executive Directors	784	243
Held by the Society's Executive Management	18 727	19 921
Held by shareholders	6 938	11 234
	26 449	31 398
Short term loans		
Held by the Society's Executive Management	94	29
Held by the Society' Non Executive Directors	4	4
	98	33
Staff loans		
Held by the Society's Executive Management	1 444	2 003
Total amounts due from related parties	27 991	33 434

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

Advances to directors and parties related thereto are in the normal course of business and considered to be adequately secured.

Advances to related parties at concessionary rates of interest are valued at the present value of expected future repayments of the advances discounted at a pre-tax discount rate that equates to the interest rate charged on similar loans to non-related parties. No impairment losses have been recorded against loans to related parties.

Notes to the Financial Statements

For the year ended 31 March 2014

◀◀ CONTINUED

		2014 P'000	2013 P'000
33.3 Related party transactions:			
Related party			
Non Executive Directors	Remuneration fees	808	833
Executive Management	Remuneration	14 906	9 586
Board of Directors	Interest expense	496	40
Executive Management	Interest expense	38	25
		16 248	10 484
Non Executive Directors	Interest income	12	33
Executive Management	Interest income	163	1 324
Shareholders	Interest income	1 916	705
		2 091	2 062

Notes to the Financial Statements

For the year ended 31 March 2014



34. Events after the reporting period

There were no material events that occurred after the reporting date that require adjustment to the amounts recognised in the financial statements or that require disclosure in the financial statements.

35. Litigations

The Society is defendant in a number of litigations which arise from its normal day to day operations. There are no significant exposures at reporting date.

36. Compliance with sections 39, 41 and 42 of the Building Societies Act

The Society complied with the requirements of Sections 39, 41 and 42 of the Building Societies Act, as varied by the Registrar of Building Societies.

REGISTERED OFFICE

BBS HOUSE

Broadhurst Mall
P.O. Box 40029, Gaborone, Botswana
Tel: (+267) 3971 396
Fax: (+267) 3903 029

BBS BRANCHES

GABORONE

BBS HOUSE

Broadhurst Mall
P.O. Box 41481, Gaborone, Botswana
Tel: (+267) 395 9167
Fax: (+267) 390 3029

THUSANYO HOUSE

Old Lobatse Road
P.O. Box 40029, Gaborone, Botswana
Tel: (+267) 395 3001
Fax: (+267) 395 3001

MAIN MALL

The Mall
P.O. Box 636, Gaborone, Botswana
Tel: (+267) 395 1240
Fax: (+267) 395 1240

FRANCISTOWN

P.O. Box 131, Francistown, Botswana
Tel: (+267) 241 3412
Fax: (+267) 241 9072

SELIBE PHIKWE

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Fax: (+267) 262 2100

LOBATSE

P.O. Box 159, Lobatse, Botswana
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Fax: (+267) 533 1132

SEROWE

Private Bag 0052, Serowe, Botswana
Tel: (+267) 463 0936
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MAUN

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Tel: (+267) 686 0631
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KASANE

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