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2011

Botswana Building Society
Annual Report



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Five Year Summary

For the year ended 31 March 2011

| Analysis of Amounts (P'000) | 2011 P'000 | 2010 P'000 | 2009 P'000 | 2008 P'000 | 2007 P'000 |
|--|---------------|---------------|---------------|---------------|---------------|
| Deposits (ordinary, special savings, Letsibogo and Tlamelo) | 282,271 | 273,608 | 278,945 | 241,685 | 216,786 |
| Fixed deposits | 8,080 | 17,297 | 743 | 847 | 1,077 |
| Advances (mortgages and short loans) | 1,690,582 | 1,458,517 | 1,289,143 | 1,084,984 | 952,211 |
| All classes of shares and reserves | 1,014,930 | 908,533 | 867,168 | 788,264 | 725,213 |

Analysis of Account holdings

| | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| Number of mortgage bond holders | 5,206 | 4,912 | 4,657 | 4,432 | 3,960 |
| Number of short-term loan account holders | 7,728 | 7,969 | 7,705 | 7,624 | 7,524 |
| Number of paid up share account holders | 41,427 | 40,225 | 40,015 | 37,744 | 35,604 |
| Number of subscription share account holders | 5,968 | 5,807 | 5,931 | 4,689 | 4,932 |
| Number of fixed-deposit account holders | 842 | 779 | 694 | 426 | 405 |
| Number of savings account holders | 103,214 | 104,785 | 155,676 | 165,172 | 182,487 |
| | <u>164,385</u> | <u>164,477</u> | <u>214,678</u> | <u>220,087</u> | <u>234,912</u> |

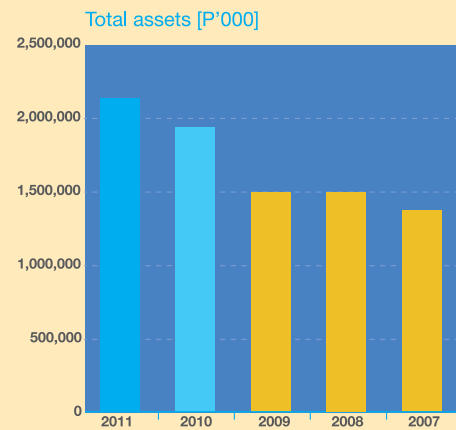
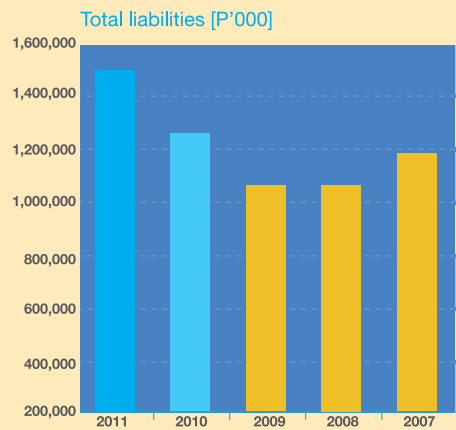
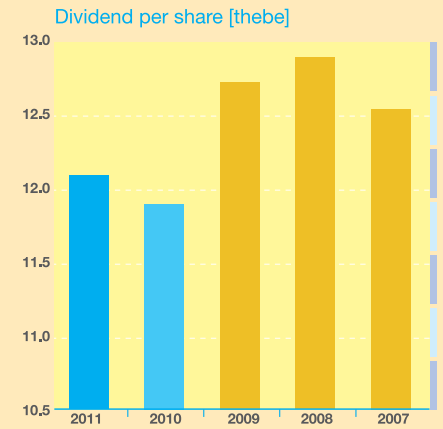
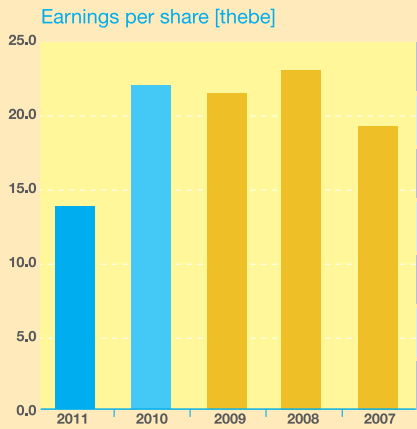
Value Added Statement

For the year ended 31 March 2011

| | 2011 P'000 | 2010 P'000 |
|--|---------------|---------------|
| Value created | | |
| Income from lending and banking activities | 235,263 | 241,674 |
| Cost of services | (97,676) | (104,646) |
| Value created by operations | 137,587 | 137,028 |
| Non-operating income | 2,537 | 2,340 |
| Operating expenditure excluding staff costs | (32,393) | (30,146) |
| | 107,731 | 109,222 |
| Value distributed | | |
| Employees - Salaries & benefits | 40,197 | 34,369 |
| Shareholders - Dividends | 56,446 | 41,127 |
| | 96,643 | 75,496 |
| Value retained | | |
| Retained income (including transfer to statutory reserve) | 7,257 | 31,123 |
| Depreciation | 3,831 | 2,603 |
| | 11,088 | 33,726 |
| Total value distributed & retained | 107,731 | 109,222 |

Performance Highlights

For the year ended 31 March 2011



“Variety is the spice of life”

BBS Products

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attractive **Investment Returns**



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Notice of Meeting & Agenda

Notice is hereby given that the Thirty fifth (35th) Annual General Meeting of Members will be held at the Gaborone Sun Conference Centre, Gaborone on 24 August 2011 at 0900 a.m.

AGENDA

1. To receive the Financial Statements, the Directors' and Auditors' Reports for the year ended 31st March 2011.
2. To approve the Financial Statements.
3. To approve the Directors' Remuneration
4. To approve the Auditors' Remuneration
5. To note the resignations/retirement of the following Directors in terms of Rule 86 of the Society, who are also eligible for re-election and also put themselves up for re-election:
 - Mr. RD Carr
 - Mr. TG Marsland
 - Mr. MM Makgatthe
 - Mr. KA Ebineng
 - Mr. S Hirschfeld
6. Consideration of Nominations & Election of new Directors:

Nominees for re-election

 - i. Mr. RD Carr
 - ii. Mr. TG Marsland
 - iii. Mr. MM Makgatthe
 - iv. Mr. KA Ebineng
 - v. Mr. S Hirschfeld

Received Nominations

 - vi. Ms. Mareledi Selato
 - vii. Mr. Gerald N. Thipe
 - viii. Mr. Fred Selolwane
7. To appoint KPMG as auditors of the Society for the following year.

BY ORDER OF THE BOARD



Keona B. Mphethe
[Board Secretary]

Board of Directors



- [1] Kabelo A. Ebineng - *Chairman*
- [2] Cross Kgosidiile
- [3] Rhys D. Carr
- [4] Martin M. Makgatlhe
- [5] Tsetsele Fantan
- [6] Tim G. Marsland
- [7] Simon Hirschfeld
- [8] James Kamyuka
- [9] Pius Molefe - *Managing Director*
- [10] Clement K. Kapalu - *Finance Director*





Senior Management

- | | |
|-------|---|
| [1] | Pius K. Molefe - Managing Director |
| [2] | Clement K. Kapalu - Finance Director |
| [3] | Keona B. Mphetlhe - Chief Corporate Affairs Manager & Board Secretary |
| [4] | Pearl Ramokate-Nkoane - Head of Finance |
| [5] | Susan Motlhabane - Chief Operations Manager |
| [6] | Thelma O'Reilly - Chief Banking Manager |
| [7] | Freddie L. Rakwadi - Head of Information Systems |
| [8] | Punah Moyo - Head of Strategy & Projects |
| [9] | Julia Ntshole - Head of Risk |

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10/10



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Chairman's Statement

Pego Ya Ga Modulasetilo

Kabelo A. Ebineng
[Chairman]

Our performance

Botswana Building Society ('BBS') has performed relatively well this financial year given the challenges it faced as a result of the current economic recession, and other vagaries of an increasingly competitive local financial market. The Society performed well in its core business with a significant increase in both the number and value of mortgage loans as Batswana continue to place a premium on home ownership. The BBS mortgage offering continues to assert itself in line with the Society's cornerstone of 'providing affordable mortgages and banking services and products to our customer.' The mortgage loan business grew by 16% year on year. BBS also increased the shareholders equity by 16% as compared to the previous year, as a result of new issue of indefinite period shares and retained earnings.

At P64 million, the profit was however noticeably depressed due to a number of operating challenges. The main challenges that led to a reduction of 12% in profitability, when comparing with the previous financial year, were an increase in personnel costs of P6 million and an increase in operating costs of P2 million as a result of the upward adjustment of the VAT rate from 10% to 12%. Personnel costs increased because the staff complement was increased by 19 new employees, largely to improve the Society's sales capability and to improve controls in the branches. Additionally, the Society recorded a reduction in non-interest income of P3 million.

The overall results are still comforting as the business has grown. The Society has a strong balance sheet and quality assets, and an incredible growth in the brand strength through the hard work of our Marketing Department.

Looking Ahead

We, the Board, have all the confidence that with the

Maduo

Fa re lebile maemo a mmara ka aa kgopakgopetsang, Botswana Building Society ('BBS') e dirile sentle mo ngwageng o re o sekasekang. Go nnile le koketsego ee nametsang ya palo ya batho ba ba adimilweng madi a tsa kago le bontsi jwa madi a ba a adimilweng. Koketsego e ke 16% fa go tshwangtshwannngwa le ngogola. Se sesupa gore Batswana ba santse ba tshwarela go nna le matlo kwa godimo, ebile gape se supa fa BBS e itshwareletse sentle malebang le dibanka tse e iteisanyang borathana le tsone fa go lebilwe kgwebo ya kadimo ya madi a tsa kago. Dipolelo tsa babeeletsi le tsone di oketsegile ka 16% re ntse re tshwantshanya le ngwaga oo sa tswang go feta.

Le fa gontse jalo, dipolelo tsa P64 million tsa kgwebo ya BBS ka kakaretso ke phokotsego ya 12% fa re bapisa le dipolelo tsa ngogola. Se sebakilwe ke go gola ga ditshenyegelo mabapi le tsa babereki ka P6 million, le koketsego ya lekgetho la VAT gotswa mo go 10% go ya ko go 12%. Ditshenyegelo tsa dituelo tsa babereki di oketsegile ka ntata ya go hirwa ga babereki ba le 19 ba ba neng ba tlhokega go tsholetsa madirelo.

Mo phelelong maduo a a amogelesega ka kgwebo ya BBS e godile, ga mmogo le go tuma ga leina la BBS mo Batswaneng ka kakaretso.

Tebelopele

Rele Khuduthamaga ya BBS re tshepha gore ngwaga o o tlang o tlaa nna monamagadi re lebile ditogamaano tse di faphegileng tse di dirilweng ke Botsamaisi jwa BBS, jaaka di tlhalosiwa mo pegong ya Mookamedi Mogolo. Thulaganyo ya go fetola Society go nna banka e amogetswe ya ba ya rurufadiwa ke Khuduthamaga. Motsamayong ya nako Botsamaisi botla buisanya le maloko ka botlalo ka thulaganyo e. Ke ka thulaganyo e fela e BBS e ka tswelelang go

"The mortgage loan business grew by 16% year on year. BBS also increased the shareholders equity by 16% as compared to the previous year, as a result of new issue of indefinite period shares and retained earnings"

"Go nnile le koketsego ee nametsang ya palo ya batho ba ba adimilweng madi a tsa kago le bontsi jwa madi a ba a adimilweng. Koketsego e ke 16% fa go tshwangtshwannngwa le ngogola...Dipoelo tsa babeeletsi le tsone di oketsegile ka 16%"

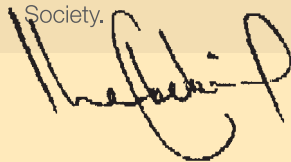
strategic plans which you will note from the Managing Director's Statement, 2011 will be a brighter year for BBS. In that context, I wish to report that the long term strategy of the Society to transform into a bank has been approved by the Board. The underlying business plan to achieve this has also been approved by the Board. So is the necessary consultative process with the Government, which is already underway and ongoing. The Society will in due course, be widely consulting with the general membership on the way forward.

It is not only desirable but imperative to recognise that the long term survival of the Society rests on a radical change of its operating model and regulatory framework. Accordingly, both the Board and Management will put considerable effort and focus behind the achievement of this strategy.

Acknowledgements and thanks

These results could never have been achieved in this challenging environment without the dedicated hard work of BBS staff and Management. With great appreciation for their diverse input, I wish to acknowledge the commitment and support of my fellow Board Members in ensuring that the Society remains profitable and sustainable for many more years to come.

In concluding, I would like to welcome a new member of the Board, Mr. James Kamyuka, who brings a wealth of financial experience and knowledge to the Society.

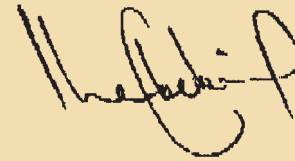


Kabelo A. Ebineng
[Chairman]

dira sentle mo dingwageng tse di kwapele mo isagong.

Ditebogo

Ke ka go dira ka mashetla ga Babereki le Botsamaisi jwa BBS re kgonneng go bona maduo a ntswa kgwebo ene e hareherwe ke seemo se se botlhabetsi sa mmaraka, ka jalo ke leboga Babereki le Botsamaisi jwa BBS. Kelebogela gape kemo-nokeng ya maloko a Khuduthamaga ya BBS. Ko bofelong ke amogela leloko le lesa la Khuduthamaga , Rre Kamyuka, yo eleng moitsaanape mo go tsa dipalopalo.



Kabelo A. Ebineng
[Chairman]



Managing Director's Statement

Pego ka Mookamedi Mogolo

Pius K. Molefe
[Managing Director]

Our Performance

The profit though good at P64 million, is 12% lower than the previous year's, mainly because of the cumulative effect of the reduction in the interest rates by the Central Bank by 50 basis points in December 2010 and the cumulative interest rate reductions on the previous financial year on a balance sheet that is generally sensitive. The increase in personnel and operating costs, and a P3 million decrease in non-interest income also put pressure on profitability. This set of results more than underscores the impetus of the Society's long term transformation strategy which will see the Society convert into a bank and thereby play on an even playing field with the commercial banks.

Our success during the year under review was a result of a focus on customer service delivery and rebranding. This was evidenced by the results of the recent customer satisfaction survey that showed that the BBS brand has grown from strength to strength over the years. In 2008 the brand index was 68.7% and has grown to a pleasing 81% in 2011. Almost all the branches have been refurbished and/or relocated to better and more accessible premises. The Kasane branch, was recently relocated to the new Hunters Africa Mall. In the same spirit the Express Lounge at BBS House which is the Society's private-banking suite for its high net worth and mortgage customers started operating during the year. All these efforts contributed to the significant increase of 16% in our mortgage loan book, with 1,405 mortgage loans amounting to P460 million having been approved during the year.

The Society has over the past few years explored ways of ensuring that while it continues to fund Botswana to acquire property, it collects repayments in order to assist even more Botswana to own property. In this regard, I am happy to report that the

Maduo

Lefa dipolelo tsa P64 million dinametsa, dikwatlase ga tsa ngogola ka 12%. Se sebakilwe ke dilo dile mmalwa, segolobogolo phokotso ya morokotso ke Banka ya Botswana ka Morule 2010 le mo dingwageng tse dingwe tse di fitileng. A mangwe mabaka ke koketsego ya ditshenyegelo mabapi le khiri le tsamaiso ya kgwebo, le phokotsego ya P3 million mo dipoelong tsa madi aa duedisiwang babeetsi le bagwebi fa ba dirisa ditlamelo tsa BBS. Maduo a supa sentle fa thulaganyo ya go fetola Society go nna banka e le matshwanedi gore kgwebo e tle e gole mme BBS e kgone go phadisanya botoka le dibanka.

Go atlega ga rona monongwaga e ne ele ka lobaka lwa goitebaganya mo go tseneletseng mo go kgotsofatseng babeetsi le go tlotlomatsa leina la BBS. Mme se se rurufaditswe ke maduo a patlomaikutlo a setshaba le babeetsi a a supileng fa serodumo sa BBS se godile le digwaga. Ka 2008 serodumo sa BBS sene sele selekanyo sa 68.7% mme ka 2011 se supilwe sele 81%. E ntse ele maiteko a go tlotlomatsa BBS, makalana a BBS a fudisitswe go atamela batho botoka, mme a mangwe a baakantswe abo a kgabisiwa ka mokgwa wa dikgwebo tsa se gompiono. Mo sebakanyaneng se se satswang go feta, lekalana la Kasane le fudiseditse ko marekisetong a masha aa bidiwang Hunters Africa Mall. Mo Gaborone lekalana le le faphegileng, le le diretsweng go thusa ba kadimo ya madi a dikago le babeetsi ba madi a magolwane, Express Lounge, e ne ya simolola go dira. Tse tshotlhe di ne tsa thusa go godisa dikadimo tsa madi a tsa kago ka 16%, ele dikadimo dile 1,405 tse di dirileng P460 million.

Botsamaisi bo tlamegile go tlhomamisa gore maloko a busa madi otlhe a ba a adimilweng ke BBS, mme se ba lephata la Collections ba se dirile ka

“Our success during the year under review was a result of a focus on customer service delivery and rebranding. This was evidenced by the results of the recent customer satisfaction survey that showed that the BBS brand has grown from strength to strength over the years. In 2008 the brand index was 68.7% and has grown to a pleasing 81% in 2011”

Collections team has managed to improve arrears management. This has resulted in an impressive reduction in both the number and value of accounts in arrears as compared to the previous year. As at year end the overdue payments were only 1% of the loan book.

Our financial position

The Society has a strong balance sheet with good quality assets. In this regard, the value of loans past due as a proportion of total loans declined from 23% the previous year to 17%. The number of loans individually impaired also reduced from 74 to 41 out of a total loan book of 5206 customers. Our capital and liquidity positions remain strong and are compliant with the prudential requirements set out in the Building Societies Act. Shareholders' equity increased by P91 million mainly as a result of new indefinite period share issues and retained earnings. Another essential component to our financial strength has been the prudent management of our risk exposure during the year under review. To strengthen the Society's risk management practices further, the Society has approved a revised Credit Management Policy and an Asset and Liabilities Management Policy, both of which accord with industry best practice.

Challenges

As you are aware, the Society is regulated through the Building Societies Act. The Act has changed very little since it was promulgated nearly 50 years ago. In its present form this Act restricts the Society's business scope, product and service offering and also imposes unduly stringent prudential requirements. There is also the threat of ever increasing competition from the growing number of commercial banks, which in addition to offering products similar to those offered by BBS also offer a myriad of banking related products and services, which BBS is precluded from offering due to the regulatory constraints. The Board,

manontlhotlho. Dikoloto tse di sa duelweng sentle difokotsegile thata ngwaga ono.

Seemo sa rona sa madi

BBS e itshetletse sentle mo go tsa madi le dithoto tse di nang le boleng. Jaaka re satswa go bua, dikoloto tse di sa duelweng sentle difokotsegile go tswa ko go 23% go ya kwa go 17% fa re di bapisitse le dikadimo tsotlhe tse didirilweng. Seemo sa rona sa madi gape se tsamaelana le se se beilweng mo molaong o re o dirisang wa Building Societies Act. Diabe tsa maloko di oketsegile ka P92 million ka ntsha ya diabe tse disha le morokotso o o neng wa bolokwa. Sengwe gape se se botlhokwa ke gore re ntse re beile leitlho dilo tse di ka tsenyang seemo sa rona sa madi mo dipharagobeng. Go tiisa maiteko a rona a go hema kgwebo mo dilong tseo, Botsamaisi bo kwadile melawana ee tla salwang morago go tlhomamisa gore tsotlhe di dirwa ka tshwanelo mo go adimeng maloko madi le mo go tlhokomeleng seemo sa madi mo BBS ka kakaretso.

Dikgwetho

Jaaka fa loitse, BBS e tsamaisiwa ka molao wa Building Societies Act o o saleng o sa fetolwe fa esale o dirwa dingwaga dile masome a matlhano tse di fitleng, ka jalo o siilwe ke dinako ebile o kgoreletsa kgwebo ya BBS. Mathata a mangwe a a kgopakgopetsang BBS mo kgwebong ke koketsego ya dibanka mo Botswana tse di fang setshaba ditlamelo le ditirelo di le mmalwa tse molao o o itsang BBS go di fa babeeletsi le ba e gwebang na bo. Ka jalo BBS e phadisanya le dibanka ka bothata.

Tebelopele

Dikgoreletsi tse di fa godimo di ka kgonwa ka ditogamaano tse di dirilweng ke Botsamaisi, tse di akaretsang go fetola BBS go e dira banka mo isagong. Ka jalo BBS e tlaabo e sa tlhole e patikiwa ke molao wa Building Societies Act. Dithulaganyo tse dingwe

“Go atlega ga rona monongwaga e ne ele ka lobaka lwa goitebaganya mo go tseneletseng mo go kgotsofatseng babeletsile go tlotlomatsa leina la BBS. Mme se se rurufaditswe ke maduo a patlomaikutlo a setshaba le babeletsile a a supileng fa serodumo sa BBS se godile le digwaga. Ka 2008 serodumo sa BBS sene sele selekanyo sa 68.7% mme ka 2011 se supilwe sele 81%”

Management and the major shareholders will, however, continue to work together to find ways of addressing some of these challenges.

Looking ahead

The challenges alluded to above are however surmountable with the strategies that the Society has put together. These include both long and short term plans. In the long term, the Society intends to demutualize and transform into a bank which will open up trading opportunities and rid itself of the constraints imposed by the present form of the Building Societies Act.

In the short term, the Society has commenced on a process intended to improve and strengthen its information technology systems and process re-engineering. In the banking front there are plans to enhance the Society's competitiveness through the introduction of a much improved electronic banking solution which will offer customers banking convenience as never before and will also allow the Society to expand its footprint and presence across the country without incurring the huge costs associated with brick and mortar branches. The Society will also pursue in earnest, its recently re-launched product, viz. the commercial loans product. In this regard, a Commercial Loans unit has recently been established. Its objective is to concentrate on corporate property finance to partner with our well established retail business.

We will also capitalise on our strong brand, employees and unique culture in serving our customers and stakeholders. To this end, we look forward to the completion of the multi-million Pula modern commercial building in the north that will house the Francistown Branch and provide premium rental office space for a discerning business partner. The project will be handed over in June 2011 and the old branch

ke gore mo sebakeng se se khutshwane, BBS e tlaabo e baakanya mafaratlhatlha a maranyane, diitlhaeletsanyo le di dirisiwa. Se se tlaabo se raya gore ditlamelo le dirisiwa tsa BBS ditla filtha mo dintlheng tsa Botswana ka kakaretso gosatlhokege maobo a kgwebo a BBS jaaka ka tlwaelo. BBS e tsositse kadimo ya madi a dikago tsa kgwebo ebile e dirile lephatana le le tlaabong le itebagantse fela le kgwebo e.

Re tla tswelela ka go tlotlomatsa serodumo sa BBS mo go gwebeng ga rona. Ka jalo re lebeletse ka boitumelo go fela ga kago e ntsha ya rona ko Francistown ee agilweng ka didikadike tsa diPula. Kago e e tla wela ka Phukwi 2011 mme re fudusetse lekalana la rona la Francistown mo teng ka Phatwe 2011. Gape re tla dira ka natla go fokotsa ditshenyegelo le go hema kgwebo ya rona mo go tsotlhe tse di bothabetsi.

Tsa setshaba

Re tla tswelela ka maitlamo a rona a go thusa ba ba dikobo dikhutshwane le Batswana botlhe ka ditsela tse dingwe ko ntle ga tsa kgwebo. BBS ene ya tsenya letsogo mo go atsweng setlhopho sa Botswana sa kgwele ya dinao, Zebras, mo maitekong a sone mo metshamekong ya sejana sa African Cup of Nations. Ka mowa o le mongwefela, BBS e tsene mo letsemeng la ga Tautona la go thusa batlhoki ka matlo, ka jalo BBS e itlamile gore mo dingwageng tse nne go simolola ka 2011 e tla aga ntlo e le nngwe ka ngwaga ebo e e neela Letsema le. Letsema le le setse le abetswe madi a a lekanyeng go aga ntlo ele ngwefela ngwaga ono. BBS e thusitse makalana a le mantsi a a ikemiseditseng go thusa Batswana ka kakaretso ka go fa makalana ao madi. Re tla tswelela ka go tsenya letsogo mo go thuseng setshaba sa rona jalo.

Sa bofelo ke lebogela Khuduthamaga, Botsamaisi,

“Shareholders' equity increased by P92 million mainly as a result of new indefinite period share issues and retained earnings. Another essential component to our financial strength has been the prudent management of our risk exposure during the year under review”

“Diabe tsa maloko di oketsegile ka P92 million ka ntlha ya diabe tse disha le morokotso o o neng wa bolokwa. Sengwe gape se se botlhokwa ke gore re ntse re beile leitlho dilo tse di ka tsenyang seemo sa rona sa madi mo dipharagobeng”

relocated from the current rented premises in July 2011.

Our priorities will also include a focus on the management of our costs, capital, and risk management to optimise our capability to support our operations.

Corporate Social responsibility

We continue to cherish and live up to our age old adage of seeking to 'uplift Batswana socially and economically'. BBS provided incentives to the national football team, the Zebras, for their campaigns in the Africa Cup of Nations. In the same spirit the Society is participating in the Presidential destitute housing initiative. The Society has made a pledge to build and donate one destitute house per year for the next four years commencing 2011. We have this year donated the value of the cost of building one house. BBS has also given financial support to numerous other deserving charitable organisations and institutions through donations. We will continue to seek and provide relevant assistance to our community.

Finally, I would like to thank the Board, Management, Staff and shareholders for their continued hard work and support.



Pius K. Molefe
[Managing Director]

Babereki le Babeetsi ba BBS go bereka ga bone ka botswerere le kemo nokeng ya bone.



Pius K. Molefe
[Managing Director]



The Directors submit to Members their Thirty Fifth Annual Report, together with the audited financial statements of the Society for the year ended 31st March 2011.

Financial Results

During the year, Paid Up and Subscription Shares increased to P538 million (2010: P518 million) an increase of P21 million or 4%. The Society's Indefinite Period Shares increased by 22% to P475million (2010: P391 million) as at 31 March 2011. The growth in all the types of shares was as a result of the reinvestment of dividends and new investments.

Savings deposits decreased by P1 million and now amount to P290 million (2010: P291 million). The reduction was due to the difficult economic environment that saw customers redeeming investments and withdrawing deposits.

Reserves increased by P10 million from P185 million in 2010 to P195 million as at March 2011.

The total assets of the Society now stand at P2,163 billion (2010: P1,872 billion) which is an increase of 16% over the previous year. Long term loans and advances grew by 16% to reach P1.627 billion (2010: P1.402 billion) while short term loans and advances at P62 million recorded growth of 9% (2010: P57 million).

Income and Expenditure

Operating Income earned from lending and banking activities amounts to P140 million (2010: P142 million) representing a decrease of P2 million or 1% compared to the previous year.

The Society's interest expense comprises interest on long term loans deposits and fixed period and subscription shares.

Operating and Administration Expenses amount to P78 million (2010: P69 million).

The Society earned a profit of P64 million (2010: P72 million), which is 12% below last year's.

Dividends

Dividends paid amounted to P56 million compared to P41 million in the previous year.

For and on behalf of the Board of Directors.

Kabelo A. Ebineng
[Chairman]

Cross Kgosidiile
[Director]



Khuduthamaga e rolela Maloko pego ya yone ya bo masome a le matlhano, ga mmogo le maduo a madi a a dupilweng e le a ngwaga o khutlileng ka Mopitlo 31, 2011.

Maduo A Madi

Mo ngwageng o o sekasekiwang, diabe tsa Paid Up le Subscription di ne tsa oketsega ka P21 million kana 4% go nna P538 million (2010: P518 million). Diabe tsa mofuta wa Indefinite Period le tsone di oketsegile ka 22% go nna P475 million (2010: P391 million). Kgolo mo diabeng ka mofuta yotlhe ke ka ntlha ya diabe tse disha le morokotso o o neng wa bolokwa.

Dipoloko di fokotsegile ka P1 million go ya kwa go P290 million (2010: P291 million). Phokotsego e e bakilwe ke go ntshiwa ga madi ke maloko ka lobaka la dishwarego tsa bone tse di dirilweng ke koketsego ya ditlwatlhwa tsa dithoto mo madirelong.

Madi a makata dimetshe a oketsegile ka P10 million gotswa kwa go P185 million ka ngwaga wa 2010 go ya kwa go P195 million ka Mopitlo 2011.

Palo yotlhe ya dithoto tsa BBS jaanong ke P2,163 billion (2010: P1,872) e e le koketsego ya 16% fa go tshwantshiwa le ngogola. Dikadimo tsa sebaka se se leele di godile ka 16% go ya kwa go P1,627 billion (2010:P1,402). Dikadimo tsa sebaka se se khutshwane di godile ka 9% go ya kwa go P62 million (2010: P57 million).

Madi a a Tseneng Le a a Duleng

Palo ya madi a a tseneng ke P140 million (2010: 142 million), se ke phokotsego ya P2 million kana 1% fa go tshwantshangwa le ngwaga oo fetileng.

BBS e duela morokotso wa madi a e a adimilweng gore e kgone go gweba le morokotso wa diabe tsa Paid Up le Subscription.

Ditshenyegelo Tsa Tsamaiso Ya Kgwebo e ne ya nna P78 million (2010: P69 million). BBS e ne ya dira dipoelo tsa P64 million (2010: P72 million), e le kwelo tlase ya 12% fa go tshwantshangwa le tsa ngwaga o o fetileng.

Morokotso

Morokotso o o duetsweng e nnile P56 million fa go tshwantshangwa le P41 million ngogola.

Pego e e rolwa mo boemong jwa Khuduthamaga.

Kabelo A. Ebineng
[Modulasetilo]

Cross Kgosiidiile
[Leloko la Khuduthamaga]

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Annual Financial Statements

2011
For the year ended 31 March 2011



Directors' Statement of Responsibility

The Directors of the Botswana Building Society (BBS) are responsible for the annual financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act (CAP 42:01) and the Building Societies Act (CAP 42:03).

BBS maintains systems of internal control, which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of assets. The Directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The Directors have no reason to believe that the Society will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

Our external auditors conduct an examination of the financial statements, in conformity with International Financial Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between Management and external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the Board of Directors and the Board Audit Committee.

Kabelo A. Ebineng
Chairman- BBS Board Committee

Cross Kgosiile
Chairman-Finance & Audit Committee

Independent Auditors Report

Independent auditor's report to the members of Botswana Building Society

We have audited the accompanying financial statements of Botswana Building Society, which comprise the statement of financial position at 31 March 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes which include a summary of significant accounting policies and other explanatory notes as set out on pages 22 to 61.

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 compliance with the Building Societies Act (CAP 42:03). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 our 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, we consider internal control 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.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Botswana Building Society at 31 March 2011, 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 the Botswana Building Society, and
- the Botswana Building Society has complied with all the financial provisions of the Building Societies Act (CAP42:03).



KPMG

Certified Public Accountants

Practicing member: Gerard Devlin (19960060:21)

KPMG, a partnership domiciled in Botswana and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

AG Devlin* NP Dixon-Warren
*British
VAT Number: P03623901112

Gaborone

Date: 27th July 2011

Annual Financial Statements

For the year ended 31 March 2011

Statement of Comprehensive Income

| | Notes | 2011 P'000 | 2010 P'000 |
|--|-------|---------------|---------------|
| Interest income | 1 | 221,348 | 224,861 |
| Interest expense | 1 | (97,849) | (102,095) |
| Net interest income | | 123,499 | 122,766 |
| Fee and commission income | 2 | 16,029 | 18,601 |
| Fee and commission expense | 2 | (2,114) | (1,788) |
| Net fee and commission income | | 13,915 | 16,813 |
| Other operating income | 3 | 2,537 | 2,340 |
| Operating Income | | 139,951 | 141,919 |
| Net impairment gain/(loss) on financial assets | 4 | 2,133 | (993) |
| Personnel expenses | 5 | (40,197) | (34,369) |
| Depreciation and amortisation | 6 | (3,831) | (2,603) |
| Operating lease expenses | 7 | (1,960) | (1,556) |
| Other expenses | 8 | (32,393) | (30,146) |
| Profit for the year | | 63,703 | 72,252 |
| Total comprehensive income for the period | | 63,703 | 72,252 |
| Dividend per share (thebe) | 9 | 12.1 | 11.7 |
| Earnings per share (thebe) | 10 | 13.9 | 22.3 |

Annual Financial Statements

For the year ended 31 March 2011

Statement of Financial Position

| | Notes | 2011 P'000 | 2010 P'000 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Cash and cash equivalents | 11 | 348,334 | 310,454 |
| Investment securities held to maturity | 12 | 26,450 | 26,450 |
| Short term loans and advances to customers | 14 | 62,171 | 56,985 |
| Inventory | 15 | 1,211 | 1,398 |
| Long term loans and advances to customers | 16 | 1,626,573 | 1,401,532 |
| Intangible assets | 17 | 4,063 | 5,028 |
| Property and equipment | 18 | 77,845 | 59,005 |
| Other assets | 13 | 16,543 | 11,338 |
| Total assets | | 2,163,190 | 1,872,190 |
| LIABILITIES | | | |
| Customers' savings and fixed deposit accounts | 19 | 290,351 | 290,905 |
| Other liabilities | 20 | 19,632 | 19,607 |
| Current tax | 21 | 9,385 | 7,618 |
| Borrowings | 22 | 638,565 | 460,640 |
| Paid up and subscription shares | 23 | 538,067 | 517,636 |
| | | 1,496,000 | 1,296,406 |
| SHAREHOLDERS' EQUITY | | | |
| Indefinite period shares | 24 | 475,045 | 390,896 |
| Statutory reserve | | 81,270 | 74,900 |
| General reserve | | 64,000 | 64,000 |
| Revenue reserve | | 49,875 | 45,988 |
| Total shareholders' equity | | 667,190 | 575,784 |
| Total equity and liabilities | | 2,163,190 | 1,872,190 |

Annual Financial Statements

For the year ended 31 March 2011

Statement of Changes in Equity

| | Share Capital P'000 | Statutory Reserve P'000 | General Reserve P'000 | Revenue Reserve P'000 | Total |
|---------------------------------|---------------------------|-------------------------------|-----------------------------|-----------------------------|----------------|
| Balance at 31 March 2009 | 313,501 | 67,675 | 46,000 | 40,088 | 467,264 |
| Issue of new shares | 77,395 | - | - | - | 77,395 |
| Profit for the year | - | - | - | 72,252 | 72,252 |
| Dividends paid | - | - | - | (41,127) | (41,127) |
| Transfers during the year | - | 7,225 | 18,000 | (25,225) | - |
| Balance at 31 March 2010 | 390,896 | 74,900 | 64,000 | 45,988 | 575,784 |
| Issue of new shares | 84,149 | - | - | - | 84,149 |
| Profit for the year | - | - | - | 63,703 | 63,703 |
| Dividends paid | - | - | - | (54,446) | (56,446) |
| Transfers during the year | - | 6,370 | - | (6,370) | - |
| Balance at 31 March 2011 | 475,045 | 81,270 | 64,000 | 48,875 | 667,190 |

Refer to note 25 for details on the Society's reserves.

Statement of Cash Flows

| | Notes | 2011 P'000 | 2010 P'000 |
|---|-------|---------------|---------------|
| Cash flows from operating activities | | | |
| Interest receipts | | 224,228 | 225,420 |
| Commission receipts | | 16,029 | 18,601 |
| Interest payments | | (96,895) | (102,296) |
| Other operating income | | 1,944 | 2,519 |
| Cash payments to employees and suppliers | | (70,473) | (61,601) |
| Cash flows from operating profits before changes in operating assets and liabilities | | | |
| | | 74,833 | 82,643 |
| Changes in operating assets and liabilities: | | | |
| Net increase in short term loans and advances to customers | | (5,187) | (2,682) |
| Net increase in long term loans and advances to customers | | (229,855) | (172,080) |
| Net decrease in inventory | | 187 | 939 |
| Net decrease/(increase) in other assets | | (5,206) | 2,398 |
| Net(decrease)/ increase in customer savings and fixed deposit accounts | | (555) | 11,218 |
| Net(decrease)/ increase in other liabilities | | (1,560) | 5,709 |
| Net cash used in operating activities | | (167,343) | (71,855) |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | 18 | (21,491) | (7,065) |
| Proceeds from sale of property and equipment | | 22 | 57 |
| Proceeds from liquidation of Government treasury bills | | - | 3,329 |
| Proceeds from liquidation of Promissory notes | | - | 50,000 |
| Purchase of Promissory notes | | - | (25,000) |
| Purchase of intangible assets | 17 | (216) | (128) |
| Net cash received/(used) in investing activities | | (21,685) | 21,193 |

Annual Financial Statements

For the year ended 31 March 2011

Statement of Cash Flows **cont'd*

| | Notes | 2011 P'000 | 2010 P'000 |
|--|-------|---------------|---------------|
| Cash flows from financing activities | | | |
| Gross proceeds from bond issue | | 110,000 | - |
| Bond capitalisation costs | | (564) | - |
| Gross proceeds from other borrowings | | 100,000 | - |
| Other borrowing costs | | (900) | - |
| Repayment of bonds | | (25,000) | - |
| Repayments of borrowed funds and debt securities | | (8,111) | (7,471) |
| Issue/ (redemption) of paid up and subscription shares | | 20,661 | (36,031) |
| Proceeds from issue indefinite paid up shares | | 84,149 | 77,395 |
| Dividends paid | | (56,446) | (41,127) |
| Net cash received/(used) in financing activities | | 223,789 | (7,234) |
| Net increase/(decrease) in cash and cash equivalents | | 37,880 | (57,896) |
| Cash and cash equivalents at the beginning of year | | 310,454 | 368,350 |
| Cash and cash equivalents at end of year | 11 | 348,334 | 310,454 |

Accounting Policies

Reporting entity

Botswana Building Society is a Society 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 provision of banking services.

Summary of significant accounting policies

The principal accounting policies in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Society's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's). The financial statements are prepared under the historical cost basis as modified by the revaluation of certain financial assets, liabilities and land and buildings in accordance with IFRS's.

The preparation of the Society's financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Society's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Society's financial statements are disclosed in the critical accounting estimates and assumptions section of the financial statements.

Accounting Policies **cont'd*

Adoption of standards

The Society adopted the standards listed below and these did not have any impact on the Society's financial statements.

IAS 27: Consolidated and separate financial statements (amendment). Consequential amendments have been made to IAS 27 Consolidated and Separate Financial Statements as a result of the revised IFRS 3 Business Combinations issued. The amendments relate mainly to the accounting for changes in the non-controlling (minority) interest in a subsidiary and the loss of control in a subsidiary. The revision, which became mandatory for the Society's 2011 financial statements does not have any impact on the financial statements of the Society.

IAS 32: Financial Instruments: Presentation: Classification of Rights Issues requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The revision, which became mandatory for the Society's 2011 financial statements, does not have any impact on the financial statements of the Society.

IFRS 2: Group Cash-settled Share-based Payment: An entity which receives the goods or services will be required to account for the share-based payment in its separate financial statements, even if it has no obligation to settle the transaction. This entity will classify the share-based payments as equity-settled if it has an obligation to transfer its own equity instruments or if it does not have an obligation to settle the transaction. Any other share-based payment will be classified as cash-settled. The revision, which became mandatory for the Society's 2011 financial statements does not have any impact on the financial statements of the Society.

IFRS 3: Business Combinations: All transaction costs will need to be expensed and contingent purchase consideration will be recognised at fair value at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in profit and loss. The revision, which became mandatory for the Society's 2011 financial statements does not have any impact on the financial statements of the Society.

IFRIC 17: Distribution of Non-Cash Assets to Owners: Under IFRIC 17 a liability will be recognised at the fair value of the asset to be distributed when the distribution is authorised. The asset to be distributed will be reclassified as held for distribution and measured in accordance with IFRS 5. Re-measurement of the liability at fair value of the asset to be distributed will be recognised in equity. When the distribution is made, the liability and the asset will be derecognised. The revision, which became mandatory for the Society's 2011 financial statements does not have any impact on the financial statements of the Society.

IAS 39: Financial instruments: Recognition and Measurement Eligible Hedged Items: The amendment provides for two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The revision, which becomes mandatory for the Society's 2011 financial statements does not have any impact on the financial statements of the Society.

Accounting Policies **cont'd*

New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements:

IFRIC 19: This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. It does not address the accounting by the creditor. The interpretation, which becomes effective for the 2012 financial statements, is not expected to have any impact on the financial statements of the Society.

IAS 24: Related Party Disclosures: The new standard requires a reporting entity to disclose transactions with its related parties and relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. This standard will be incorporated into the financial statements of the Society for the financial year ending 31 March 2012.

IFRS 7 amendment: Transfer of financial assets: The new standard requires a reporting entity to additionally disclose the transfer of financial assets that are not derecognised in their entirety and derecognised in their entirety but for which the entity retains continuing involvement. The revision, which becomes mandatory for the Society's 2013 financial statements, is not expected to have any impact on the financial statements of the Society.

IFRIC 14: IAS 19 requires certain criteria to be met before an entity may recognise an asset in respect of a defined benefit plan. IFRIC 14 provides additional guidance on how these criteria should be interpreted, in particular where the plan requires minimum contributions to be made (regardless of the surplus). In terms of the Pension Funds Act, an entity operating a defined benefit plan is required to submit a scheme to the Registrar of Pension Funds, setting out the contributions which will be made to eliminate its statutory deficit. This is a minimum funding requirement to cover an existing shortfall for past service which will be dealt with in accordance with IFRIC 14. The 2012 financial statements of the Society are not expected to be impacted as the Society does not currently operate a defined benefit plan.

IFRS 9: IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39. There are two options under IFRS 9 in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. The impact on the 2014 financial statements for the Society is not expected to be significant.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented.

Recognition of assets, liabilities and provisions

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.

Accounting Policies **cont'd*

Significant accounting policies (continued)

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 recognised 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.

Revenue recognition

Interest

Interest income and interest expenses are recognised in the statement of 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.

Fee and commission income

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 expense relate mainly to transaction and service fees, which are expensed as the services are received.

Rent income

Rental income is recognised in the statement of comprehensive income on a straight line basis over the lease term.

Dividend income

Dividends are recognised when the right to receive payment is established.

Dividend payments

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

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.

Accounting Policies **cont'd*

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.

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 net within other income in profit or loss.

Land is not depreciated. Depreciation on other assets provided on a straight line basis. This is from 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 greater 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 period of the lease |
| 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 balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Computer software costs

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 development costs recognised as intangible assets are amortised using the straight line method over their useful lives, not exceeding a period of five years.

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

Accounting Policies **cont'd*

net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Financial instruments

Financial instruments are any contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments included in the financial statements of the Society include loans and advances to customers, borrowings, customer deposits and investments. 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.

Customers' 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 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.

Financial assets

The Society classifies its financial assets in the following categories: loans and advances, available-for-sale financial investments, fair value through profit and loss and held to maturity. Management determines the classification of its investments at initial recognition.

a) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Society provides money, goods or services directly to a borrower with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers.

Loans and advances are recognised at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the statement of comprehensive income.

Loans and advances extended to members of staff at rates below market rates are originally recorded at amortised cost determined based on the effective interest method. Under this method, the fair value of the capital value granted is measured as the present value of anticipated future cash flows discounted at an applicable market interest rate. The difference between the capital amount advanced and amortised cost is recognised as an expense when the loan is granted and unwinds to income over the period of the loan based on the effective interest rate yield curve.

b) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange or equity.

Purchases and sales of available-for-sale financial assets are recognised on trade date (the date on which the Society commits to purchase or sell the asset).

Accounting Policies **cont'd*

Available -for-sale investments are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently carried at fair value.

c) Fair value through profit and loss

This category has two sub- categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by Management.

d) Held-to-maturity

Held-to-maturity investments are non- derivative assets with fixed or determinable payments and fixed maturity that the Society has the positive intent and ability to hold to maturity and which are not designated at fair value through the profit or loss or available-for-sale.

Impairment of financial assets

a) 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 is impaired. A financial asset or group of financial assets is 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:

- i) significant difficulty of the issuer or obligator;
- ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- iii) 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;
- iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- v) the disappearance of an active market for the financial asset because of financial difficulties;
- vi) 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 assess 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.

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 the statement of comprehensive income.

Accounting Policies **cont'd*

For the purposes of a collective evaluation of an impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Society and historical experience loss emergence and loss rates for assets with credit risk characteristics to similar assets held by those in the Society.

Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the statement of comprehensive income.

b) Assets carried at fair value

The Society assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its costs is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss is removed from equity and recognised in the statement of comprehensive income.

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 the profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Inventory

Inventory consists 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.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Society are measured using the currency of the primary economic environment in which the Society operates "the functional 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 Pula has been rounded to the nearest thousand.

Accounting Policies **cont'd*

Transactions and balances

Transactions in foreign currencies are converted to Pula at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated into Pula using rates of exchange ruling at the balance sheet date. All exchange gains and losses arising on translation are recognised in the statement of comprehensive income.

Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest yield 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 yield 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 rate 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 comprehensive as interest expense.

Lease agreements

Where the Society is the lessor

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Receipts of operating leases 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.

Where the Society is the lessee

Leases, which merely confer the right of use of an asset, are treated as operating leases, with the total contractual lease payments being 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.

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 12% 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 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.

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.

Accounting Policies *cont'd

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.

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Society recognises termination benefits when it is demonstrably committed to either terminate the employment of the current employees according to a detailed formal plan without possibility for withdrawal or provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Share capital 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.

Income tax

The Society is exempt from paying income tax as per the seventh schedule of the Income Tax Act.

Related party transactions

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

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and amounts due from banks.

Critical Accounting Estimates and Assumptions

The Society makes estimates and assumptions concerning the future. The resulting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

a) Impairment losses on loans and advances

The Society reviews its loan portfolios to assess impairment at least twice a year. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Society makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) 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 have been determined by the Management based on information provided by property experts.

c) Below is a table showing the impact of changes to critical accounting estimates on profitability when one of the following factors is varied:

1. Loss ratio
2. Contractual rates of interest
3. Period of realisation of the security
4. The forced sale value

| | Current figures | Loss ratio | | Contractual interest rates | |
|--------------|-----------------|------------|----------|----------------------------|---------|
| | | (+)1% | (-)1% | (+)1% | -1% |
| Provision | P'000 | P'000 | P'000 | P'000 | P'000 |
| Identified | 4,135 | - | - | 1,458 | (1,259) |
| Unidentified | 2,654 | 16,489 | (16,489) | - | - |

| | Current figures | Period of realisation | | Forced sale value | |
|--------------|-----------------|-----------------------|-----------|-------------------|-------|
| | | 6 months | 18 months | (+)10% | -10% |
| Provision | P'000 | P'000 | P'000 | P'000 | P'000 |
| Identified | 4,135 | (755) | 1,987 | (447) | 2,486 |
| Unidentified | 2,654 | (666) | 690 | - | - |

Risk Management

Financial risk management

a) Introduction and overview

As a continuation to the internal control framework review which started the previous financial year, the Society has embarked on a much wider project which is also reviewing the overall strategic direction of the Society. Within the project, the Society has adopted a more robust risk management process. A Global Risk Unit has been established to manage the enterprise wide risks assumed by the organisation.

The Society will adopt 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
- Liquidity risk
- Operational risk
- Interest rate 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.

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board has recently approved a revised Credit Policy and a new Asset and Liabilities Management Policy, which are both in the process of implementation by Management. The Society's Board and its committees are comprised of non executive directors and two executive directors.

The Global Risk Unit, has been established to replace the Risk and Compliance Department. The new unit will have specialised sub-units that will focus on different risk classes. The sub-units will include ALM (Asset and Liability Management), Credit Risk Management, Operational Risk and other risk classes and Treasury activities.

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.

Risk Management *cont'd

b) 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 customer balances with banks and investment 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).

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 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. A Risk Department, reporting to Finance Director, 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 Head of the business unit. Larger facilities require approval by the Managing Director or the Board of Directors as appropriate.
- 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 gradings 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 Credit 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.

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For the year ended 31 March 2011

Risk Management ^{*cont'd}

b) Credit Risk (continued)

Exposure to credit risk

| | Loans and Advances to customers 2011 P'000 | Loans and Advances to customers 2010 P'000 |
|--|---|---|
| Carrying amount | 1,626,573 | 1,401,532 |
| Individually impaired (Specific) | | |
| Residential | 11,971 | 22,336 |
| Commercial | 666 | 1,325 |
| Gross amount | 12,637 | 23,661 |
| Allowance for impairment | (4,134) | (5,406) |
| Carrying amount | 8,503 | 18,255 |
| Collectively impaired | | |
| Gross amount | 1,620,724 | 1,387,316 |
| Allowance for impairment | (2,654) | (4,039) |
| Carrying amount | 1,618,070 | 1,383,277 |
| Past due but not impaired | | |
| Carrying amount | | |
| Past due comprises: | | |
| 30-60 days | 157,645 | 189,559 |
| 60-90 days | 38,154 | 31,351 |
| 90-180 days | 48,976 | 65,014 |
| 180 days + | 25,318 | 42,302 |
| Carrying amount | 270,093 | 328,226 |
| Neither past due nor impaired | | |
| Carrying amount | 1,347,977 | 1,055,051 |
| Includes accounts with renegotiated terms | | |
| Past due accounts as a proportion of total loans | 17% | 23% |
| Number of loans individually impaired | 41 | 74 |

Risk Management **cont'd*

b) Credit Risk (continued)

Impaired loans

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 agreement(s).

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 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 independent of satisfactory performance after restructuring

Allowance 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 specific loss component that relates to individually significant exposures, and collective loan loss allowance established for Society's homogeneous assets in respect of losses that have been incurred but have not been identified.

Write-off policy

The Society writes off a loan balance (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.

Cash and cash equivalents

The Society held cash and cash equivalent of P348 million as at 31 March 2011 (2010: P305 million) which represents its maximum credit exposure on these assets. The cash and cash equivalent are held with financial institutions of high repute. Management has set exposure limits for the different financial institutions to minimise credit risk on cash and cash equivalent.

The Society holds collateral against loans and advances to customers in the form of mortgage interests over property, cash and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated every three years and when a loan is individually assessed as impaired or when the customer requests further facilities on the same bond. The Society does not however consider the guarantee in determining the level of impairment on loans because of potential disagreements in the interpretation of the agreement between the Society and the guarantor.

Risk Management ^{*cont'd}

b) Credit Risk (continued)

| | Loans and advances to customers 2011 P'000 | Loans and advances to customers 2010 P'000 |
|--|---|---|
| Against individual impaired Property | 15,499 | 24,560 |
| Against collectively impaired Against past due but not impaired Property | 700,492 | 797,429 |
| Against neither past due nor impaired Property | 2,676,209 | 2,058,662 |
| Total | 3,392,200 | 2,880,651 |
| Carrying amount as a proportion of collateral cover | 48% | 49% |

c) Liquidity

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations 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 drawdowns. The Society does not 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.

Risk Management ^{*cont'd}

c) Liquidity (continued)

Exposure to liquidity risk

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

The table below is an analysis of the Society's liquidity position as per the requirement of Section 42

| | MARCH 2011 BALANCE | REQUIREMENT | MARCH 2011 Actual | MARCH 2010 Actual |
|--|-----------------------|-------------|----------------------|----------------------|
| Savings and fixed deposits | 290,351 | 30% | 87,105 | |
| DPCFL due within 1 year | 8,806 | 30% | 2,642 | |
| Accrued interest | 16,012 | 30% | 4,804 | |
| | | | 94,551 | 101,722 |
| Paid up and subscription shares less loans | 475,896 | 20% | 95,179 | |
| DPCFL due 1 - 5 years | 39,797 | 20% | 7,959 | |
| SIMS Borrowing | 99,127 | 20% | 19,825 | |
| | | | 122,963 | 101,643 |
| DPCFL due over 5 years | 2,330 | 10% | 233 | |
| Bonds due over 5 years | 472,493 | 10% | 47,249 | |
| | | | 47,482 | 36,491 |
| Loan commitment | 113,029 | 30% | 33,909 | 34,918 |
| Total statutory requirement | | | 298,905 | 274,774 |
| Total cash and cash equivalent | | | 348,334 | 310,454 |
| Surplus | | | 49,429 | 35,680 |

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.

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For the year ended 31 March 2011

Risk Management ^{*cont'd}

c) Liquidity (continued)

The table below analyses assets and liabilities of the Society into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Contractual Maturities of assets and liabilities

| As at 31 March 2011 | On demand P'000 | 1 to 3 months P'000 | 3 to 12 months P'000 | 1 to 5 years P'000 | Over 5 years P'000 | Non interest bearing P'000 | Total P'000 |
|---|--------------------|------------------------|-------------------------|-----------------------|-----------------------|-------------------------------|------------------|
| Assets | | | | | | | |
| Cash | 4,475 | - | - | - | - | - | 4,475 |
| Due from banks | 162,580 | 181,279 | - | - | - | - | 343,859 |
| Promissory notes | - | - | 26,450 | - | - | - | 26,450 |
| Other assets | - | 25 | 138 | 9,846 | - | 6,534 | 16,543 |
| Short term loans and advances to customers | 31 | 515 | 2,221 | 59,404 | - | - | 62,171 |
| Inventory | - | - | - | - | - | 1,211 | 1,211 |
| Long term loans and advances to customers | 5 | 316 | 1,922 | 103,723 | 1,520,606 | - | 1,626,573 |
| Intangible assets | - | - | - | - | - | 4,063 | 4,063 |
| Property and equipment | - | - | - | - | - | 77,845 | 77,845 |
| Total assets | 167,091 | 182,135 | 30,731 | 172,973 | 1,520,606 | 89,653 | 2,163,190 |
| Share holder's equity and liabilities | | | | | | | |
| Customers' savings and fixed deposit accounts | 275,394 | 45 | 14,663 | 249 | - | - | 290,351 |
| Other liabilities | - | - | - | - | - | 29,017 | 29,017 |
| Borrowings | - | 3,362 | 4,749 | 47,526 | 582,928 | - | 638,565 |
| Paid up and subscription shares | - | - | - | 538,067 | - | - | 538,067 |
| Indefinite period shares | - | - | - | - | 475,045 | - | 475,045 |
| Statutory reserve | - | - | - | - | - | 81,270 | 81,270 |
| General reserve | - | - | - | - | - | 64,000 | 64,000 |
| Revenue reserve | - | - | - | - | - | 46,875 | 46,875 |
| Total equity and liabilities | 275,394 | 3,407 | 19,412 | 585,842 | 1,057,973 | 221,162 | 2,163,190 |
| Net liquidity gap | (108,303) | 178,728 | 11,319 | (412,869) | 462,633 | (131,509) | - |
| As at 31 March 2010 | | | | | | | |
| Total assets | 148,584 | 187,198 | 7,394 | 185,625 | 1,271,307 | 72,082 | 1,872,190 |
| Shareholder's equity and liabilities | 275,949 | 3,407 | 44,412 | 565,411 | 770,899 | 212,112 | 1,872,190 |
| Net liquidity gap | (127,365) | 183,791 | (37,018) | (379,786) | 500,408 | (140,030) | - |

The maturity of assets and liabilities, and the ability to replace, at acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Society and its exposure to changes in interest rates.

Risk Management *cont'd

d) Operational risks

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 authorisation 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 Audit and Finance Committee and Executive Management of the Society.

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For the year ended 31 March 2011

Risk Management ^{*cont'd}

e) 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 rate are managed principally through monitoring interest rate gaps and by having pre- approved limits for re-pricing bands. The summary of the Society 's interest rate gap position is as follows.

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

| As at 31 March 2011 | Up to 1 month P'000 | 1 to 3 months P'000 | 3 to 12 months P'000 | 1 to 2 years P'000 | 2 to 5 years P'000 | Over 5 years P'000 | Non interest bearing P'000 | Total P'000 |
|--|---------------------------|---------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|------------------|
| Assets | | | | | | | | |
| Cash | - | - | - | - | - | - | 4,475 | 4,475 |
| Due from banks | 162,580 | 181,279 | - | - | - | - | - | 343,859 |
| Promissory note | - | - | 26,450 | - | - | - | - | 26,450 |
| Other assets | 10,009 | - | - | - | - | - | 6,534 | 16,543 |
| Short term loans and advances to customers | 62,171 | - | - | - | - | - | - | 62,171 |
| Inventory | - | - | - | - | - | - | 1,211 | 1,211 |
| Long term loans and advances to customers | 1,175,502 | 8 | 200 | 3,748 | 14,109 | 433,006 | - | 1,626,573 |
| Intangible assets | - | - | - | - | - | - | 4,063 | 4,063 |
| Property and equipment | - | - | - | - | - | - | 77,845 | 77,845 |
| Total assets | 1,410,262 | 181,287 | 26,650 | 3,748 | 14,109 | 433,006 | 94,128 | 2,163,190 |
| Share holder's equity and liabilities | | | | | | | | |
| Customers savings and fixed deposit accounts | 283,423 | 1,732 | 4,600 | 217 | 379 | - | - | 290,351 |
| Other liabilities | - | - | - | - | - | - | 29,017 | 29,017 |
| Borrowings | - | 99,127 | 110,000 | - | 42,490 | 386,948 | - | 638,565 |
| Paid up and subscription shares | 538,067 | - | - | - | - | - | - | 538,067 |
| Indefinite period shares | 475,045 | - | - | - | - | - | - | 475,045 |
| Statutory reserve | - | - | - | - | - | - | 81,270 | 81,270 |
| General reserve | - | - | - | - | - | - | 64,000 | 64,000 |
| Revenue reserve | - | - | - | - | - | - | 46,875 | 46,875 |
| Total equity and liabilities | 1,296,535 | 100,859 | 114,600 | 217 | 42,869 | 386,948 | 221,162 | 2,163,190 |
| Total interest sensitivity gap | 113,727 | 80,428 | (87,950) | 3,531 | (28,760) | 46,058 | (127,034) | 0 |
| As at 31 March 2010 | | | | | | | | |
| Total assets | 1,184,026 | 186,871 | - | - | 423,449 | - | 77,844 | 1,872,190 |
| Shareholder's equity and liabilities | 1,199,437 | - | - | - | - | 460,640 | 212,112 | 1,872,190 |
| Net interest sensitivity gap | (15,411) | 186,871 | - | - | 423,449 | (460,640) | (134,268) | 0 |

Risk Management ^{*cont'd}

f) 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 balance sheet assets and commitments at weighted amounts to reflect their relative risk.

For prudential supervisory purposes, tier 1 capital consists of indefinite period shares and the general and the statutory 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 earning 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 63.24% as at 31 March 2011 (2010:63.00%). The minimum rate as set by the Bank of Botswana is 15%.

There has been no material changes in the Society's management of capital during the period.

The Society's regulatory capital position as at 31st March 2011 is as follows;

| | | 2011 P'000 | 2010 P'000 |
|--|--------------------|------------------|----------------|
| Tier 1 capital | | 666,302 | 569,885 |
| Tier 2 capital | | 887 | 5,900 |
| Total unimpaired capital | | 667,189 | 575,785 |
| Risk weighted assets | | | |
| | Risk weight | | |
| Due from domestic banks | 20% | 68,772 | 60,938 |
| Residential loans | 50% | 794,132 | 669,455 |
| Commercial loans | 100% | 69,211 | 80,336 |
| Property and equipment | 100% | 81,908 | 64,034 |
| Other real estate(PIP) | 100% | 1,211 | 1,398 |
| Other assets | 100% | 42,993 | 37,788 |
| Total risk-weighted assets | | 1,058,227 | 913,949 |
| Capital ratios | | | |
| Total regulatory capital expressed as a percentage of total risk-weighted assets | | 63.05% | 63.00% |

Notes to the Financial Statements

Valuation of financial instruments

Financial instruments carried at fair value are categorised in 3 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.

All the Society's financial instruments are carried at amortised cost, which approximate their fair value, and are therefore categorised as level 3.

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|--|---------------|---------------|
| 1 Net interest income | | |
| Interest income | | |
| Cash and cash equivalents | 18,705 | 26,754 |
| Long term loans and advances | 191,705 | 185,273 |
| Short term loans and advances | 7,950 | 8,415 |
| Investments held to maturity | 3,625 | 4,419 |
| Total interest income | 221,985 | 224,861 |
| Interest expense | | |
| DPCFL loans | 6,209 | 6,911 |
| Bond | 50,794 | 45,133 |
| Term loan | 276 | - |
| Paid up and subscription shares | 34,322 | 43,505 |
| Fixed deposit | 1,336 | 723 |
| Savings deposit | 4,912 | 5,823 |
| Total Interest expense | 97,849 | 102,095 |
| Net Interest income | 124,136 | 122,766 |
| 2 Net fee and commission income | | |
| Fee and commission income | | |
| Commission on other services | 5,440 | 7,554 |
| Transaction and loan origination fees | 10,356 | 10,885 |
| Brokerage | 233 | 162 |
| Total fee and commission income | 16,029 | 18,601 |
| Fee and commission expense | | |
| Interbank transaction fees | (2,114) | (1,788) |
| Net fee and commission income | 13,915 | 16,813 |
| 3 Other operating income | | |
| Rental income | 2,515 | 2,283 |
| Other | 22 | 57 |
| Total other operating income | 2,537 | 2,340 |

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 4 Net impairment gain/(loss) | | |
| Specific impairment | (1,272) | (1,143) |
| General Impairment | (1,385) | 131 |
| Net loss on sale of properties | 524 | 2,004 |
| Long term loans and advances | (2,133) | 993 |
| 5 Personnel expenses | | |
| Salaries and wages | 32,401 | 25,746 |
| Pension fund contributions | 1,710 | 1,637 |
| Bonus provision | 2,000 | 3,945 |
| Leave pay provision | 1,540 | 1,179 |
| Other employee expenses | 461 | 272 |
| Fair value adjustment-off market loans originated during the year | 2,085 | 1,590 |
| Total personnel costs | 40,197 | 34,369 |
| 6 Depreciation and amortisation | | |
| Depreciation -Property and equipment (note 18) | 2,650 | 2,044 |
| -Intangible assets (note 17) | 1,181 | 559 |
| | 3,831 | 2,603 |
| 7 Operating lease charges | | |
| Branch rentals | 1,960 | 1,556 |
| The number of employees at 31 March 2011 was 191 (2010 :172). | | |
| 8 Other expenses | | |
| Directors' fees -sitting allowance and retainer fee | 404 | 566 |
| Auditors' remuneration | | |
| Audit fees -current year | 1,320 | 1,200 |
| -Other fees | - | 59 |
| Advertising and marketing | 3,924 | 3,448 |
| Computer maintenance expenses | 1,076 | 1,137 |
| Insurance | 1,076 | 844 |
| Legal and professional expenses | 6,662 | 6,669 |
| License fees | 4,227 | 4,026 |
| Repairs and maintenance-Property and equipment | 1,727 | 1,763 |
| Stationery and printing | 1,204 | 1,019 |
| Telephone and postage | 2,245 | 2,065 |
| Travel and subsistence | 1,415 | 1,502 |
| Staff welfare and uniform | 2,502 | 878 |
| Sundry expenses and VAT writeoff | 2,547 | 2,232 |
| Security expenses | 1,122 | 903 |
| Other expenses | 942 | 1,835 |
| | 32,393 | 30,146 |

Notes to the Financial Statements **cont'd*

9 Dividend per share

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
Indefinite period shares
Dividend per share (thebe)

2011
P'000

2010
P'000

| | |
|---------|---------|
| 56,446 | 41,127 |
| 465,831 | 350,112 |
| 12.1 | 11.7 |

10 Earning per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of indefinite shares in issue during the year.

Net profit attributed to shareholders
Weighted average number of indefinite period shares in issue
Earnings per share (thebe)

| | |
|---------|---------|
| 63,703 | 72,252 |
| 456,737 | 323,818 |
| 13.9 | 22.3 |

11 Cash and cash equivalents

Cash balances
Fixed deposits with banks
Other balances with banks
Money market placement

| | |
|---------|---------|
| 4,475 | 5,762 |
| 181,279 | 161,871 |
| 88,116 | 38,874 |
| 74,464 | 103,947 |
| 348,334 | 310,454 |

Fixed deposits have a term of up to three months at interest rates ranging from 5.9% to 7.15%.

The rates of interest on current, call and money markets accounts range from 0 to 6.31%.

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 12 Investment securities held to maturity | | |
| Promissory notes | 26,450 | 26,450 |
| Promissory notes attract interest of 14.25% per annum. The note matures 6 November 2011. | | |
| 13 Other assets | | |
| Rent debtors | 1,550 | 979 |
| Staff debtors | 10,009 | 6,137 |
| Prepayments and other debtors | 4,129 | 3,647 |
| Accrued interest on Fixed deposits | 855 | 2,025 |
| | 16,543 | 12,788 |
| 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. | | |
| 14 Short term loans and advances to customers | 2011 P'000 | 2010 P'000 |
| All short term loans are for periods of between six to sixty months, bear interest at 12.5% per annum and are secured by Paid up shares and Subscription shares. | 62,171 | 56,985 |
| 15 Inventory | | |
| Properties in possession: | | |
| Balance at beginning of the year | 1,398 | 2,337 |
| Repossessions during the year | 1,514 | 1,708 |
| Disposals during the year | (1,676) | (2,327) |
| Write down during the year | (25) | (320) |
| Balance at the end of the year | 1,211 | 1,398 |
| Number of properties in possession-Residential | 6 | 8 |
| The properties in possession comprise premises the Society has repossessed and they are accounted for at fair value. | | |

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 16 Long term loans and advances to customers mortgages | | |
| Gross amount | 1,639,076 | 1,420,306 |
| Impairment allowance | (12,503) | (18,774) |
| Carrying amount | 1,626,573 | 1,401,532 |
| (a) Specific allowance for impairment | | |
| Balance at the beginning of the year | 5,406 | 6,548 |
| Impairment (gain)/loss for the year | (1,318) | 862 |
| Write back/(off) during the year | 46 | (2,004) |
| Balance at the end of the year | 4,134 | 5,406 |
| (b) General(collective) impairment | | |
| Balance at the beginning of the year | 4,039 | 3,908 |
| Impairment (gain)/ loss for the year | (1,385) | 131 |
| Balance at the end of the year | 2,654 | 4,039 |
| (c) Interest in suspense | | |
| Balance at the beginning of the year | 9,329 | 12,113 |
| Interest arising during the year | (3,614) | (2,784) |
| Balance at the end of the year | 5,715 | 9,329 |

Mortgage loans are granted up to a maximum period of thirty years. The variable rate loans and advances amount to P1187 million and P452 million are at fixed rate of interest.

Interest is charged at rates between 10.70% and 15.5% and 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 open market value of the property.

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 |
|-----------------------------|---------------|
| 17 Intangible assets | |
| Cost | |
| Balance at 1 April 2009 | 7,753 |
| Acquisitions | 3,994 |
| Balance at 31 March 2010 | 11,747 |
| Balance at 1 April 2010 | 11,747 |
| Acquisitions | 216 |
| Balance at 31 March 2011 | 11,963 |
| Depreciation | |
| Balance at 1 April 2009 | 6,160 |
| Depreciation for the year | 559 |
| Balance at 31 March 2010 | 6,719 |
| Balance at 1 April 2010 | 6,719 |
| Depreciation for the year | 1,181 |
| Balance at 31 March 2011 | 7,900 |
| Carrying amounts | |
| At 1 April 2009 | 1,593 |
| At 31 March 2010 | 5,028 |
| At 1 April 2010 | 5,028 |
| At 31 March 2011 | 4,063 |

Notes to the Financial Statements *cont'd

18 Property, plant and equipment

| | Freehold property | Freehold land | Leasehold property | Leasehold land | Equipment, furniture and fittings | Computer hardware | Motor vehicles | WIP | Total |
|---------------------------|----------------------|------------------|-----------------------|-------------------|---|----------------------|-------------------|---------|---------|
| Cost | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Balance at 1 April 2009 | 1,201 | 515 | 31,600 | 4,256 | 10,303 | 9,481 | 373 | 21,869 | 79,598 |
| Acquisitions | - | - | 239 | - | 509 | 475 | - | 5,842 | 7,065 |
| Disposal | - | - | - | - | (57) | 8 | - | (16) | (65) |
| Transfers | 63 | - | (30) | (33) | - | - | - | (3,866) | (3,866) |
| Balance at 31 March 2010 | 1,264 | 515 | 31,809 | 4,223 | 10,755 | 9,964 | 373 | 23,829 | 82,732 |
| Balance at 1 April 2010 | 1,264 | 515 | 31,809 | 4,223 | 10,755 | 9,964 | 373 | 23,829 | 82,732 |
| Acquisitions | - | - | - | - | 2,548 | 1,689 | - | 17,254 | 21,491 |
| Transfers | - | - | 81 | - | 2,300 | - | - | (2,381) | 0 |
| Balance at 31 March 2011 | 1,264 | 515 | 31,890 | 4,223 | 15,603 | 11,653 | 373 | 38,702 | 104,223 |
| Depreciation | | | | | | | | | |
| Balance at 1 April 2009 | - | - | 5,333 | - | 8,920 | 7,363 | 66 | - | 21,682 |
| Depreciation for the year | - | - | 378 | - | 708 | 912 | 47 | - | 2,045 |
| Balance at 31 March 2010 | - | - | 5,711 | - | 9,628 | 8,275 | 113 | - | 23,727 |
| Balance at 1 April 2010 | - | - | 5,711 | - | 9,628 | 8,275 | 113 | - | 23,727 |
| Depreciation for the year | - | - | 131 | - | 1,481 | 992 | 47 | - | 2,651 |
| Balance at 31 March 2011 | - | - | 5,842 | - | 11,109 | 9,267 | 160 | - | 26,378 |
| Carrying amounts | | | | | | | | | |
| At 1 April 2009 | 1,201 | 515 | 26,267 | 4,256 | 1,383 | 2,118 | 307 | 21,869 | 57,916 |
| At 31 March 2010 | 1,264 | 515 | 26,098 | 4,223 | 1,127 | 1,689 | 260 | 25,400 | 60,576 |
| At 1 April 2010 | 1,264 | 515 | 26,098 | 4,223 | 1,127 | 1,689 | 260 | 23,869 | 59,005 |
| At 31 March 2011 | 1,264 | 515 | 26,048 | 4,223 | 4,494 | 2,386 | 213 | 38,702 | 77,845 |

A register of particulars of the land and buildings is maintained at the Society's registered office and may be inspected by members or their duly appointed agents.

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 19 Customers' savings and fixed deposit accounts | | |
| Fixed deposits | 8,080 | 17,297 |
| Letsibogo | 45,194 | 36,259 |
| Tlamele Mortgage Savings | 2,956 | 83 |
| Ordinary and special savings | 234,121 | 237,266 |
| | 290,351 | 290,905 |
| <p>The fixed deposits have a term ranging from twelve months to sixty months and accrue interest between 1.70% and 6.07% per annum.</p> <p>The Letsibogo savings product is repayable on demand and accrues interest between 0.5% and 5.00% per annum.</p> <p>Savings deposits are repayable on demand. The ordinary savings deposit accrue interest of 0.25% while special savings earn interest at a rate between 0.5% and 4.75% per annum.</p> <p>Tlamele mortgage savings account accrue interest at 6.75% annually</p> | | |
| 20 Other liabilities | | |
| Accounts payable | 1,060 | 1,034 |
| Other creditors | 12,763 | 14,628 |
| Dividend payable | 3,809 | - |
| Bonus provision | 2,000 | 3,945 |
| | 19,632 | 19,607 |
| <p><i>Reconciliation of bonus provision</i></p> | | |
| Opening balance | 3,945 | 4,000 |
| Paid during the year | (3,945) | (4,000) |
| Provision 2011 | 2,000 | 3,945 |
| Closing balance | 2,000 | 3,945 |
| 21 Current tax liabilities | 9,385 | 7,618 |
| Relates to withholding tax on dividend paid by the Society on behalf of clients | | |

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 | |
|--|--------------------------------------|--------------------|-----------------------------------|
| 22 Borrowings | | | |
| Various unsecured DPCFL loans repayable over the period to 2018, bearing interest at rates between 7.5% and 9.5% per annum, and repayments due semi-annually in arrears. | 50,933 | 57,879 | |
| Unsecured long-term bonds | | | |
| Unsecured bonds issued by the Society, bearing interest at 12% , 11.1% and 11.2% and 91 day BOBC rate plus 150 basis points per annum, payable semi-annually in arrears. | 472,493 | 387,703 | |
| Term Loan | | | |
| Unsecured loan priced at 91 BOBC rate plus 140 basis points Interest is paid on a quarterly basis | 99,127 | - | |
| Total interest bearing borrowings | 622,553 | 445,582 | |
| Interest accrued | 16,012 | 15,058 | |
| | 638,565 | 460,640 | |
| Analysis of DPCFL loans | | | |
| Year loan received | Balance at 31 March 2011 P'000 | Interest rate % | No of outstanding installments |
| 1987 | 211 | 8.5 | 4 |
| 1988 | 237 | 7.5 | 5 |
| 1988 | 2,493 | 7.5 | 5 |
| 1989 | 2,315 | 7.5 | 7 |
| 1990 | 7,502 | 8.0 | 10 |
| 1991 | 27,046 | 8.5 | 11 |
| 1993 | 11,129 | 9.5 | 14 |
| | 50,933 | | |

Annual Financial Statements

For the year ended 31 March 2011

Notes to the Financial Statements *cont'd

22 Borrowings cont'd

Analysis of bonds

| Number | Maturity date | Amount | 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 day BOBC plus 1.50% |

| Name | Maturity date | Amount | Type | Interest rate |
|-----------|---------------|---------|----------|---------------------------|
| Term loan | 6 March 2013 | 100,000 | Floating | 91 day BOBC plus 1.40% |

23 Paid up and subscription shares

| | | |
|---------------------|----------------|----------------|
| Paid up shares | 498,736 | 489,436 |
| Subscription shares | 39,331 | 27,816 |
| | <u>538,067</u> | <u>517,636</u> |

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.

Subscription shares are subscribed for a period of 36 months and may be redeemed without notice.

Early redemption, or failure to meet subscription commitment is subject to forfeiture of 3 months dividend accrual.

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 5.65% and 6.5% respectively.

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 24 Indefinite period shares | | |
| Indefinite period shares are invested for an indefinite period. | 475,045 | 390,896 |
| <p>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.</p> <p>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.</p> <p>Indefinite period shares earn coupon rates of 11%.</p> | | |
| 25 Reserves | | |
| <p>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.</p> <p>The Society may charge against the reserve fund any net loss remaining after applying to such loss any revenue reserves from prior periods.</p> <p>The general reserve has been established to cover general market risks. There are no restrictions on the application of funds in the general reserve. Undistributed profits are retained in the revenue reserve after apportioning a minimum of 10% of the annual profit/loss to the statutory reserve.</p> | | |
| 26 Tax | | |
| <p>The Society has been exempted from income tax in accordance with the provisions of the Income Tax Act Section 130 (2) (IV).</p> | | |

Notes to the Financial Statements **cont'd*

| | 2011 P'000 | 2010 P'000 |
|---|---------------|---------------|
| 27 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 | 1,838 | 1,529 |
| Two to five years | 1,939 | 2,021 |
| | <u>3,777</u> | <u>3,550</u> |
| 28 Commitments | | |
| Commitment in respect of mortgages approved but not yet disbursed | 113,029 | 116,392 |
| Capital expenditure - approved but not yet committed | 13,903 | 13,963 |
| - approved and committed | 17,101 | 24,757 |
| Commitments will be met from the Society's own resources. | | |

29 Related party transactions

Loans to directors are made in the ordinary course of business on normal commercial terms. The amount outstanding in loans at 31 March 2011 was P1.1 million to three directors (2010:P1.1 million to three directors).

A list of members of the Board of Directors is shown on page 10 of the Annual Report. In 2010 the total remuneration of the Directors was P0.6 million (2009:P0.7million) (note 8).

Directors or persons related to them held shares in the Society as at 31 March 2010 amounting to P6.9 million (2009:P8.3million)

Executive management or persons related to them held shares in the Society as at 31 March 2010 amounting to P0.4 million (2009: P0.5 million)

The amount outstanding in loans to the executive management as at 31 March 2010 was P7.0 million (2009: P10.4 million)

A list of the executive management is shown on page 10 of the annual report. In 2010 the total remuneration of the executive management was P4.3 million (2009: P6.9 million)

Loans are made to employees on concessionary terms in accordance with the conditions of employment. The Debt Participation Capital Fund Limited, a wholly owned Government company has outstanding loans with the Society amounting to P57.9 million and interest paid on the loans amounted to P7.5 million (Note 1 and 22). The Government of Botswana held shares in the Society as at 31 March 2010 amounting to P118 million. The Government of Botswana shares have now been transferred to Botswana Privatisation Asset Holding company effective 25th May 2010, a 100% company owned by government. The BIFM Capital Investment Fund One (Pty) Limited held shares amounting to P150 million in the Society.

30 Post balance sheet events

Other than the facts and developments in these financial statements, there has been no material changes in the affairs or financial position of the Society between the year end and the date of approval of these financial statements.

Notes to the Financial Statements *cont'd

31 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 at the year end date.



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