

**Independent Auditor's Report
To the Shareholders of BBS Bank Limited
Report on the Audit of the Consolidated and Separate Financial Statements**

Opinion

We have audited the consolidated and separate financial statements of BBS Bank Limited and its subsidiary (the Group) and company set out on pages 12 to 100, which comprise the consolidated and separate statement of financial position as at 31 December 2023, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of material accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the group and company as at 31 December 2023, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and Banking Act (CAP 46:04).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with other ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

The Key Audit Matter applies equally to the audit of the consolidated and separate financial statements.

Key audit matter	How the matter was addressed in the audit
<i>Expected credit losses on mortgage loans and advances to customers (Consolidated and separate financial statements)</i>	
<p>Loans and advances to customers comprise a significant portion of the Group and Company's total assets at P4.1 billion (2022: P3.2 billion) representing 79% (2022: 81%) of the Group and Company's total assets. The Group and Company recognises an Expected Credit Losses (ECL allowance) on these loans and advances to customers.</p> <p>The ECL allowance is calculated using a modelled basis. The preparation of the ECL model is inherently subjective and involves significant management judgement and estimates in determining the inputs into the ECL models, including the use of management quantitative specialists in the design and execution of these models. These judgements and estimates include:</p> <ul style="list-style-type: none"> • Choosing appropriate models and assumptions for the measurement of ECL • Determining criteria for significant increase in credit risk (SICR) • Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL • Establishing groups of similar financial assets for the purposes of measuring the ECL; and • Appropriateness, completeness and valuation of risk event overlays to capture risks not identified by the credit impairment models • The determination of management overlays • Estimation of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters. 	<p>Our procedures included the following, amongst others, and we involved EY specialists to assist us in performing our procedures where relevant:</p> <ul style="list-style-type: none"> ❖ We evaluated the design and operating effectiveness of controls relevant to the Group's processes over ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. These included: <ul style="list-style-type: none"> • credit monitoring. • controls over the allocation of assets into stages such as management's monitoring of stage effectiveness. • completeness and accuracy of data. • review and approval of multiple economic scenarios. • model governance, including model monitoring, model validation and review and approval of post model adjustments. ❖ We evaluated the data inputs used in calculating the PD, EAD and LGD parameters by reconciling these inputs to the core banking system. ❖ We assessed the stage allocation for a sample of loans and individual exposures against the SICR triggers identified by management. We further evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of financial assets and assessed the reasonableness of staging downgrades applied by management by comparing it to the Group's modelling documentation. ❖ We assessed the design and application of macro-economic forecasts and models adopted by the management expert by assessing the appropriateness of the macro-economic forecasts included in the forward-looking information and scenario weightings by benchmarking these against external evidence and economic data. ❖ We performed an independent ECL quantification analysis on economic data and

<p>In the current year, the most significant factors impacting the ECL were in relation to the increase in the unsecured loans and advances to customers and the economic environment including the continuing impact of higher interest rates, inflation and geopolitical uncertainty. We consider that the combination of these factors has increased risk.</p> <p>Therefore, we have identified the audit of the expected credit loss (ECL) allowance applied to loans and advances to customers at the reporting date as a key audit matter due to the extent of auditor judgment required in assessing the above areas of judgement. This necessitated the involvement of our internal economic and quantitative specialists and increased discussions with management during the audit.</p> <p>The disclosures associated with the ECL allowance of loans and advances to customers are set out in the consolidated and separate financial statements:</p> <ul style="list-style-type: none"> • Note 1.1 - Key sources of estimation uncertainty • Note 10 - Loans and advances to customers • Note 2 - Financial instruments and risk management 	<p>industry stresses which incorporates independently estimated economic impacts using third party as well as our own data to ascertain the reasonability of the macro-economic management adjustments.</p> <ul style="list-style-type: none"> ❖ For the economic scenarios – in collaboration with our economists and modelling specialists, we also challenged the completeness and appropriateness of the macro-economic variables used as inputs to the model. Additionally, we involved economic specialists to assist us in evaluating the reasonableness of the base forecast for a sample of macro-economic variables by benchmarking the forecast to a variety of external sources. ❖ Management overlays – we challenged the completeness and appropriateness of overlays used for risks not captured by the models for the unsecured loan book. Our procedures included evaluating the underpinning assumptions and judgments as to whether they are appropriate in prevailing market conditions. ❖ We engaged our modelling specialists to evaluate the ECL model by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design, formulae and algorithms, alternative modelling techniques and recalculating the PD, LGD and EAD parameters and ultimately the provision for impairment. ❖ We assessed the adequacy of the disclosures by comparing these to the requirements of IFRS 9 Financial Instruments.
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the 100-page document titled “BBS Bank Limited Consolidated and Separate Financial statements for the year ended 31 December 2023”, which includes the General Information, Directors’ Responsibility Statement and the Directors’ Report which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated or the separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and Banking Act (CAP: 46:04), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.


As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group and company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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28 March 2024