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Independent Auditor's Report

To the shareholders of BBS Limited

Opinion

We have audited the financial statements of BBS Limited ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 9 month-period then ended and the notes to the financial statements, which include a summary of significant accounting policies, as set out on pages 19 to 112.

In our opinion, the financial statements give a true and fair view of the financial position of BBS Limited as at 31 December 2018, and of its financial performance and cash flows for the 9 month-period then ended in accordance with International Financial Reporting Standards and in the manner required by the Building Societies Act (Cap: 42:03).

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 Company's financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1) Change of capital structure Refer to: • Note 19 on ordinary shares and indefinite period shares • Statement of changes in equity • Note 34 on events after the reporting date (Increase in stated capital)	
Key audit matter	**How the matter was addressed**
On 26 April 2018 Botswana Building Society went through a demutualisation process by converting from a building society to a Company limited by shares. This process was part of the Company's journey to convert to a commercial bank. As part of the process, there was a need to change the capital structure to meet the requirements of the Botswana Companies Act. The change of the capital structure involved conversion of equity instruments which existed in the previous financial year totalling P945 million to ordinary shares, debts instruments and fixed term deposits. The share allocation was guided by the following criteria: o Existing equity holders given an opportunity to apply for and purchase shares using their existing equity investments. o Free allocation to qualifying customers. Where certain qualifying members had outstanding short-term loans and advances which were collateralised by a portion of the equity investments, a usable balance was determined to ensure adequate investments are retained as collateral. Due to the significance of the change in the Company capital structure and the equity transactions involved, the conversion process and related	Our procedures included: — We confirmed that the change of the Company structure followed the appropriate governance and approval processes by inspecting correspondence with the relevant authorities and stakeholders. — We obtained an understanding of the process followed by management in the change of the Company capital structure and transactions involved. For a sample of allocated ordinary shares selected for testing, we: — Traced the shareholder details to the listing of applications received to confirm that the shareholder qualified for the allocation and number of shares allocated. — Confirmed that the number of shares purchased and allocated as recorded in the share allocation register agreed to details on the share application form. For free shares allocated, we performed the following: — Confirmed the mathematical accuracy of the calculations and allocation split performed by management. — We interrogated the share allocation calculation to confirm alignment to the process prescribed by management.

transactions, this was considered to be a key audit matter.	— For customers with short-term loans and advances at the allocation date, we confirmed that the said customers met the usable balance test ensuring that adequate collateral is retained to adequately cover the short-term loans and advances outstanding at the conversion date. — We confirmed the accuracy of shares per the Company records by agreeing the number of shares allocated to the number of shares per the Botswana Stock Exchange Market report issued subsequent to the registration in OTC Serala Board of the Botswana Stock Exchange. — We confirmed the accuracy of the transfer of debt instruments from equity to debentures by way of reconciliation and ensuring the amounts recorded agree to signed agreements. — We confirmed the accuracy of the transfer of the remaining equity investments not converted to either ordinary shares or debentures from equity to fixed term deposits by way of reconciliation and ensured that they were subjected to interest expense at the correct time.

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2) Globus T24 banking system upgrade Refer to the following notes in the financial statements: • 10 on mortgage loans and advances to customers. • 34 on events after the reporting date	
Key audit matter	**How the matter was addressed**
The upgrade of the core banking system in the previous financial year resulted in inaccurate reporting of short-term and mortgage loans and advances to customers because of several challenges described in note 10 of the financial statements. The post upgrade challenges remained unresolved during the current financial period and included among others: missing bills, duplicated bills and interest errors. Consequently, management performed manual processes to correct the effect of these inaccuracies post period end. The post system upgrade challenges had a significant effect on our audit strategy relating to: ○ an inability to rely on the system application controls. ○ a change in our initial audit process. ○ an increased significant risk of material misstatement on the accuracy of short-term and mortgage loans and advances to customers. As this was assessed as a higher risk of material misstatement and these matters required significant auditor attention and effort, it was therefore considered to be a key audit matter.	Our procedures included: — We obtained, with the involvement of our IT experts, an understanding of the system challenges, management responses thereto and the impact on the financial reporting processes. — We tested a sample of short-term and mortgage loans and advances from the population identified by management as having no issues by performing independent amortisation of these, taking into account the relevant inputs. This was done to assess if other mortgage loans and advances was affected by system challenges or not. — We selected a sample of loans and advances to customers from the population that was identified by management as affected by system challenges and reperformed the amortization calculation for comparison with the manual amortisation undertaken by management. This was to check the accuracy of the adjustments made by management to correct system inaccuracies. — We tested the inputs into the manual recalculation of the sampled loans and advances to customers by comparing against signed loan agreements and payments in customer settlement accounts.

	— We evaluated the impact of the challenges on prior year reported balances based on new information that became available in the current reporting period by reperforming the manual recalculation on the prior year numbers to assess whether there was a material prior period error.

3) Impairment of Short-term loans and advances to customers and Mortgage loans and advances to customers

Refer to the following notes in the financial statements:

- Note 2 (ii) on key sources of estimation uncertainties
- Note 3 (a) on Changes in accounting policies (Classification of financial assets and financial liabilities)
- Note 3 (h) on financial instruments (policy applicable form 1 April 2018)
- Note 4 (i) on financial risk management on credit risk
- Note 8 on Short-term loans and advances to customers
- Note 10 on Mortgage loans and advances to customers.
- Note 25 on Expected credit losses

Key audit matter	How the matter was addressed
The Company's core business involves providing mortgage loans and advances to individuals and corporate customers. Consequently, the main component of the Company's financial assets comprise loans and advances to customers which is significant to the total assets of the Company. In the financial statements of the Company, gross mortgage loans and advances to customers amount to P3.2 billion and short-term loans and advances amount to P77 million. The related expected credit losses (ECL) for the year amounts to P85.8 million and P1.7 million, respectively. The Company adopted the standard IFRS 9: *Financial Instruments* (IFRS 9) effective 01 April 2018, which requires management to apply	Our procedures included: — We evaluated the design and implementation, and where applicable, the operating effectiveness of manual key controls over the loans and advances impairment process, focusing on the identification of the ECL, the governance processes implemented for credit models and inputs, and management's oversight over the ECL. — We evaluated the design and implementation and the operating effectiveness of controls relating to the Company's loan origination process and credit reviews. — Where expected credit losses were calculated on a modelled basis, we performed the following procedures,

significant judgements in the determination of expected credit losses, including those relating to loans and advances to customers. The following inputs to these models require significant management judgement: — Determination of significant increase in credit risk (SICR). — Determination of macroeconomic inputs and forward-looking information into the SICR assessment and the ECL measurement. — The estimation of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). In addition to the above, judgement is also applied to determine whether any post model overlays are required for credit risk elements which are not captured by the models. Due to the significance of the mortgage loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL, the impairment of short-term and long-term mortgage loans and advances to customers was considered to be a key audit matter.	in conjunction with our credit risk specialists: • We critically assessed the ECL models developed by management and the key assumptions applied in the calculation of the ECL relating to short-term and mortgage loans and advances to customers. This included use of the credit risk specialist to evaluate the assumptions and accuracy of the calculations in the models. • We assessed the completeness, accuracy and validity of data and inputs used during the development and application of the ECL models. • We challenged the parameters and significant assumptions applied in the calculation models which included SICR, estimated macroeconomic inputs and forward-looking information, the estimated probability of default, exposure at default and loss given default by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions. • We inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed the collateral valuation techniques applied against the credit policy and industry standards. • Where management's experts have provided valuations in respect of collateral, we assessed the experts' competence and evaluated management's controls in respect of appointment of the

	experts, including assessment of their professional qualifications experience and independence. — We evaluated the appropriateness of management additional post model overlays by independently assessing the reasonability of the assumptions and judgments made by management. — We evaluated the appropriateness of the new accounting policies applicable from 1 April 2018 due to the adoption of the new accounting standard relating to financial instruments. — We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments, sensitivities, the classification of mortgage loans and advances to customers on the date of initial application of IFRS 9 and the impact of the transition to IFRS 9 on the opening balances relating to short term and mortgage loans and advances to customers and retained earnings.

4) **Going concern assessment and uncertainties related to COVID-19** Refer to the following notes in the financial statements: • Note 35 on going concern • Note 34 on events after the reporting date	
Key audit matter	**How the matter was addressed**
The Company incurred a net loss for the period ended 31 December 2018 of P26 million (March 2018: profit of P50 million. The loss position is expected to continue for a period exceeding 12 months after the reporting date. This is largely driven by the envisaged increased costs as part of the journey to transition to a commercial bank. In addition, subsequent to the reporting date there has been a pandemic of Coronavirus (COVID-19) which has required a global response to contain the disease. The Botswana Government has taken the necessary measures to contain and slow the spread of the virus. The measures taken to limit the spread of COVID-19 have been and by all accounts will continue to be severely disruptive to the global and local economy and financial markets and restricts the free movement of both people and goods. The negative impact has not yet been felt by the Company and it is closely monitoring the impact. Plans are underway to develop a new strategy for the new bank which is expected to turnaround the loss-making position of the Company in the long term. The success of the new strategy of converting to a commercial bank is dependent on obtaining a banking license which will enable the Company to introduce a wide range of products and services. The	We critically evaluated management's assessment of the going concern assumption as follows: — We assessed the reliability of the forecasts by comparing the latest forecasts against initial budgets and historical performance. — We evaluated the assumptions in respect of available projected future forecasts made by management for reasonableness based on information available. — We inspected correspondence with financial institutions, financiers and other relevant parties for any matters that may have an impact on the going concern of the Company. — We calculated the key ratios such as capital adequacy and liquidity ratio and compared the ratios with the regulatory thresholds to evaluate whether there are any trends that indicate going concern issues. — We considered the impact that COVID-19 may have on the Company and critically evaluated management's

Company's latest financial records and future projections indicate the Company will remain solvent. Considering the timing of the submission of the banking licence application, the outcome and potential financial impact of continued losses, the extent and potential financial impact that these global and local lockdown measures might have on the Company, the directors have specifically assessed the impact that this will have on the Company's forecasts, liquidity and ultimately its ability to continue as a going concern. The assessment performed by management indicates declining key ratios, however, these are still within the regulatory thresholds. As there are significant judgements involved in the assessment of whether the going concern assumption remains appropriate and assumptions made regarding the duration and the anticipated impact of the COVID-19 pandemic on the Company, the going concern assessment and uncertainties related to COVID-19 is considered a key audit matter.	assessment of the impact on the Company's financial statements, including its impact on the going concern assumption and subsequent event disclosures. — We interrogated various scenarios considered by management in order to assess the impact that this pandemic will have on the Company's forecasts, liquidity and ultimately its ability to continue as a going concern. These included the current Company performance and the plans underway to develop a new strategy for the new bank which is expected to turnaround the loss-making position of the Company. — We evaluated management's assessment of COVID-19 related risks for the Company's businesses and financial resources compared with our own understanding of these risks. We considered management's plans to mitigate these risks.

Other Information

The Directors are responsible for the other information. The other information comprises the directors' report, the directors' responsibility statement 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 financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 that we have obtained prior to the date of this auditors' 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 Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the 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.

Report on Other Legal and Regulatory Requirements

In accordance with Section 54 of the Building Societies Act (CAP42:03), we consider and report that in our opinion:

- BBS Limited 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 BBS Limited; and
- BBS Limited has complied with all the financial provisions of the Act.

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KPMG
Certified Auditors
Practicing Member: Gosego Motsamai (20030026)
Certified Auditor of Public Interest Entity
BAOA Certificate Number CAP 0035 2019

Date: 16 June 2020
Gaborone