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Independent Auditor's Report

To the shareholders of BBS Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BBS Limited (“the company”) set out on pages 19 to 91, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, Accounting Policies and Notes to the Financial Statements.

In our opinion, these financial statements give a true and fair view of the financial position of BBS Limited as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 financial statements of the current year. 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) Temenos (T24) banking system upgrade	
<p>Refer to the following notes to the financial statements:</p> <ul style="list-style-type: none"> • Note 6 Short-term loans and advances to customers • Note 8 Mortgage loans and advances to customers. 	
Key audit matter	How the matter was addressed in our audit
<p>The upgrade of the core banking system resulted in inaccurate reporting of short-term and mortgage loans and advances to customers because of several challenges described in note 8 to the financial statements. The post upgrade challenges remained unresolved during the current financial year and included among others missing bills, duplicated bills and interest calculation errors. Consequently, management performed manual processes during the year to correct the effect of these inaccuracies. Similar to the previous financial period, the post system upgrade challenges had a significant effect on our audit strategy relating to:</p> <ul style="list-style-type: none"> • inability to rely on the system application controls. • a change in our initial audit approach. • an increased significant risk of material misstatement on the accuracy of short-term and mortgage loans and advances to customers. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • 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. • Tested a sample of short-term and mortgage loans and advances from the population identified by management as having no issues and performed an independent amortisation of these, taking into account the relevant inputs. This was done to assess if other mortgage loans and advances were affected by the system challenges or not. • 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 amortisation calculation for comparison with the manual amortisation



<p>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.</p>	<p>undertaken by management. This was to confirm the accuracy of the adjustments made by management to correct system inaccuracies.</p> <ul style="list-style-type: none"> • 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. • Evaluated the adequacy of the financial statement disclosures with respect to this matter.
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<p>2) Impairment of Short-term loans and advances to customers and Mortgage loans and advances to customers</p>	
<p>Refer to the following notes to the financial statements: Note 1.1 Key sources of estimation uncertainties Note 1.8 Financial instruments Note 6 Short-term loans and advances to customers Note 8 Mortgage loans and advances to customers Note 25 on Expected credit losses Note 42 Financial instruments and risk management on credit risk</p>	
<p>Key audit matter</p>	<p>How the matter was addressed in our audit</p>
<p>The Company's core business involves providing short term and 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</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluated the competence and capabilities of experts engaged by management to develop IFRS 9 compliant statistical models and to assist with the calculation of ECL. Where management's experts have provided valuations in



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Key audit matter	How the matter was addressed in our audit
<p>total assets of the Company. In the financial statements of the company, gross mortgage loans and advances to customers amount to BWP3.5 billion and short-term loans and advances amount to BWP 62 million. The related expected credit losses (ECL) for the year amounts to BWP 103 million and BWP 1.3 million, respectively.</p> <p>The ECL model applied to measure impairment requires management to exercise significant judgement in the determination of ECL.</p> <p>Management calculates the ECL using statistical models and have engaged experts to assist with this process.</p> <p>The following inputs to these models require significant management judgement:</p> <ul style="list-style-type: none"> • Determination of significant increase in credit risk (SICR). 	<p>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.</p> <ul style="list-style-type: none"> • 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. • Evaluated the design and implementation and the operating effectiveness of controls relating to the Company's loan origination process and credit reviews.



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<ul style="list-style-type: none"> • 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). <p>In addition to the above, judgement is also applied to: -</p> <ul style="list-style-type: none"> • determine whether any post model overlays are required for credit risk elements which are not captured by the models. • the fair value of collateral considered in the determination of Expected credit losses at the reporting date. <p>Due to the significance of the mortgage loans and advances to</p>	<p>Where expected credit losses were calculated on a modelled basis, we performed the following procedures, in conjunction with our credit risk specialists:</p> <ul style="list-style-type: none"> — 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. — Assessed the completeness, accuracy and validity of data and inputs used during the development and application of the ECL models;



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<p>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.</p>	<ul style="list-style-type: none"> — We challenged the parameters and significant assumptions applied in the calculation models which included SICR, estimated macroeconomic inputs and forward-looking information, the estimated PD, EAD and LGD by evaluating these assumptions against internal business practices, industry norms and our own independent assumptions. — 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. — Evaluated the appropriateness of management’s additional post model overlays by



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	<p>independently assessing the reasonability of the assumptions and judgements made by management.</p> <p>— Evaluated financial effects of the subsequent events due to the COVID-19 pandemic especially on the key elements applied in the determination of the expected credit losses and the impact on collateral values.</p> <ul style="list-style-type: none"> • We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 9: Financial Instruments and IFRS 7: Financial Instruments disclosures.



3) Going concern assessment and impact of COVID-19

Refer to the following notes in the financial statements:

- Note 34 Events after the reporting period
- Note 35 Going concern

Key audit matter	How the matter was addressed in our audit
<p>The Company incurred a net loss for the year ended 31 December 2019 of P36 million (2018: loss of P26 million).</p> <p>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 into a commercial bank. In addition, subsequent to the reporting date there has been an outbreak of a Coronavirus (COVID-19) pandemic 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 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.</p> <p>Plans are underway to develop a new strategy for the bank which is expected</p>	<p>We critically evaluated management’s assessment of the going concern assumption as follows:</p> <ul style="list-style-type: none"> • Assessed the reliability of the forecasts by comparing the latest forecasts against initial budgets and historical performance. • Evaluated the assumptions in respect of available projected future forecasts made by management for reasonableness based on the current market conditions and developments within the company. • Inspected correspondence with financial institutions, financiers and other relevant parties for any matters that may have an impact on the ability of the company to continue as a going concern . • 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.



3) Going concern assessment and impact of COVID-19

Refer to the following notes in the financial statements:

- Note 34 Events after the reporting period
- Note 35 Going concern

Key audit matter	How the matter was addressed in our audit
<p>to turnaround the loss-making position of the company in the long term. The success of the new strategy of converting into 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 Company's latest financial records and future projections indicate the company will remain solvent and liquid.</p> <p>Considering the timing of the submission of the banking license 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 indicate declining key ratios, however, these are still within the regulatory thresholds.</p>	<ul style="list-style-type: none"> • Considered the impact that COVID-19 may have on the company and critically evaluated management's 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. • 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



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Refer to the following notes in the financial statements:	
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Key audit matter	How the matter was addressed in our audit
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.	management's plans to mitigate these risks.

Other information

The directors are responsible for the other information. The other information comprises the general information, Directors' Responsibility Statement and the Director's Report, but 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 express 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, 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 financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in compliance with the requirements of 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 the 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 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 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

(a) 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.



- (b) As detailed in note 38 to the financial statements, the company has not complied with section 205 (1) as a result of challenges that impeded the completion of the December 2018 audit within the stipulated period, and consequently that of the subsequent financial year 2019. The company filed an ex parte application with the High court of the republic of Botswana to be able to file the audited sets of the financials out of time. The High court agreed with BBSL granting it a rule nisi which upon not being opposed by the reportable date of 23 September 2020, it was made into an order of court. Therefore, BBSL was granted an extension to have submitted its audited financial statements for 2019 by 31 December 2020.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

Certified Auditors

Practicing Member: Gosego Motsamai (20030026)

Certified Auditor of Public Interest Entity

BAOA Certificate Number CAP 0035 2019

Date: 18 December 2020

Gaborone