Building a better working world

Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
PO Box 41015
Gaborone, Botswana

Tel: +267 397 4078 / 365 4000
Fax: +267 397 4079
Email: eybotswana@za.ey.com
Partnership registered in Botswana
VAT No: PO3625401112
www.ey.com

Independent Auditor's Report

To the Shareholders of Absa Bank Botswana Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Absa Bank Botswana Limited and its subsidiary ('the Group') set out on pages 12 to 125 , which comprise of the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, but excluded the sections marks as "unaudited" in notes 4 and 47.1 and the annexure "Normalised view vs IFRS view" .

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act of Botswana (Cap 42:01) and the requirements of the 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 Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and other independence requirements applicable to performing audit of the Group and in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Group. 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 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 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 financial statements.

Key Audit Matter	How the matter was addressed in the audit
Expected credit losses (ECLs) relating to loans and advances The disclosures associated with the key audit matter are set out in the consolidated financial statements in the following notes: • Note 2.16.3 - Expected credit losses on financial assets on the consolidated financial statements • Note 4 – Impact of Covid-19 (excludes any numbers marked as unaudited) • Note 10- Expected credit losses • Note 21 – Loans and advances to customers • Note 22 - Credit risk reconciliation – expected credit loss allowance • Note 47.7 – Credit risk	
We identified the audit of expected credit losses (ECL) relating to loans and advances to customers as a key audit matter considering the following: • Absa's loan and advances to customers are material to the consolidated financial statements; • The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers; and • The COVID-19 pandemic has created significant economic volatility and uncertainty, requiring increased subjective management judgement in developing its economic forecasts and the estimation of ECL on loans and advances to customers In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit: • Modelled ECL provisions A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment	Our audit effort included the following procedures in addressing the key audit matter: We have updated our understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes. • Modelled ECL provisions With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9: Financial Instruments: Expected Credit Loss methodology (IFRS 9). We have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models. Our quantitative specialists have reperformed the model calculations using assumptions as per the model documentation, and our independently reperformed PD, EAD and LGD parameters, to test accuracy of ECL calculations. We have assessed the appropriateness of Absa's significant increases in credit risk (SICR) methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL numbers have been compared to Absa's ECL numbers per stage and per portfolio. We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers.

incorporates judgement and estimation by management, including the impact of COVID-19 • Estimation and incorporation of multiple forward-looking macro-economic scenarios These scenario forecasts are developed by Absa's group economics unit and have required increased levels of management judgement, given the COVID-19 pandemic is an unprecedented event with material impacts on economic activity and incomes. • Management adjustments Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact on the ECL. In the current year, management have recognised that COVID-19 is an extraordinary event. Absa's ECL models are not calibrated to cater for the full impact of the current levels of economic volatility and complexity. Within the Retail portfolios, management thus developed new macro-economic analytical models to determine appropriate adjustments to modelled PDs and LGDs when recognising ECL. Within the Wholesale portfolios existing model approaches were adjusted for the impacts of COVID-19, supplemented by industry sector adjustments. These adjustments are subject to a high degree of subjective management judgement. • Stage 3 ECL provisions assessed on an individual basis A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Banking portfolios which requires specific audit effort. Significant judgements, estimates and	• Estimation and incorporation of multiple forward-looking macro-economic scenarios We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts. With assistance from our economics specialists, we have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. With the assistance of our quantitative and economics specialists, we have assessed the design and application of the macro-economic analytical models and sensitivity approaches adopted by management. We performed independent ECL quantification analyses on economic forecasts and industry stresses, which incorporated independently estimated economic impacts as a result of the COVID-19 pandemic considering third party and our own data, to assess the reasonability of the macro-economic management adjustments. • Management adjustments We reperformed a sample of the management adjustments, challenged the appropriateness of the assumptions and inputs used and have assessed management's governance processes over the management adjustments. We have assessed management's rationale for the macro-economic variable (MEV) adjustments and evaluated them against our understanding of the factors used based on independent data. Where there is a range of uncertain potential outcomes, we have considered a range of possible outcomes, formed an independent view using independent data and discussed with management regarding our views. • Stage 3 ECL provisions assessed on an individual basis We have tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments. Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures:

assumptions are applied by management to: o Determine if the financial asset is credit impaired; o Evaluate the valuation and recoverability of collateral; o Determine the expected future cash flows to be collected; and o Estimate the timing of the future cash flows. • Additional disclosures related to credit risk The increased level of economic uncertainty as a result of COVID-19 increases the subjectivity and materiality of management judgements applied to estimate ECL. Additional disclosure was required in the consolidated financial statements in order to allow users of the consolidated financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability thereof.	o Where exposures are collateralised, we tested Absa Group's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. Where management has utilised specialists, we have assessed controls related to their competence and objectivity. o Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information. o We have utilised our valuation specialists for a sample of more complex valuation assessments. • Additional disclosures related to credit risk We have focused on the additional disclosures in the current year to ensure the appropriateness and accuracy of these disclosures with the assistance of our financial reporting specialists. Specifically, we assessed the reasonability of the disclosures in light of the audit work performed and disclosures made elsewhere in the consolidated financial statements. We have assessed management's credit disclosures including those related to the ECL impact of COVID-19 against IFRS 7: Financial Instruments: Disclosures requirements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 130-page document titled "Absa Bank Botswana Limited Consolidated Annual Financial Statement 31 December 2020" which includes the Directors' responsibility and approval and the Corporate governance 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. The other information also includes the sections marked as unaudited in the consolidated financial statements and described in our Opinion paragraph above. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 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 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.

Other Matter

The consolidated financial statements of Absa Bank Botswana Limited for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2020.

Responsibilities of the Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the director is responsible for assessing the Group'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 director either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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'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'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 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 financial statements, including the disclosures, and whether the consolidated 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 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 director's 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 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.

Ernst + Young

Ernst & Young
Practising member: Bakani Ndwapi
Partner
Membership number: *19980026*
Certified Auditor
Gaborone
30th March 2021