



KPMG, Chartered Accountants
Audit
Plot 67977, Off Tlokweng Road,
Fairgrounds Office Park
PO Box 1519, Gaborone, Botswana
Telephone +267 391 2400
Fax +267 397 5281
Web <http://www.kpmg.com/>

Independent Auditor's Report

To the Shareholders of African Banking Corporation of Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of African Banking Corporation of Botswana Limited (the Group and Company), set out on pages 12 to 76, which comprise the statements of financial position as at 31 December 2019, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, significant accounting policies and the notes to the financial statements.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of African Banking Corporation of Botswana Limited as at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana.

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 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.

Other matter

The impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 36 to the financial statements, Covid-19 affects the Group and the Company and results in certain uncertainties for the future financial position and performance of the Group and Company. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the consolidated and separate financial statements. All audits assess and challenge the reasonableness of estimates made by the Group and Company, the related disclosures and the appropriateness of the going concern assumption in the consolidated and separate financial statements. The appropriateness of the going concern assumption depends on assessments of the future economic environment and the Group's and Company's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Covid-19.



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.

Impairment of loans and advances to customers

This key audit matter is applicable to both the consolidated and separate financial statements.

Refer to the following notes in the consolidated and separate financial statements:

Note 2.1 - Significant accounting judgements, estimates and assumptions – measurement of expected credit loss allowance

Note 2.21 – Financial instruments

Note 3.1 - Credit risk

Note 4.1 – Significant estimates and judgements - measurement of expected credit loss

Note 6 - Changes in expected credit losses

Note 20 - Loans and advances to customers

The key audit matter	How the matter was addressed in our audit
<p>The Group's and the Company's core business involves providing loans and advances to retail and corporate customers.</p> <p>In the consolidated and separate financial statements, gross loans and advances to customers amount to BWP 6.72 billion and BWP 6.2 billion respectively as at 31 December 2019 and the change in expected credit losses for the year amounts to BWP 278 million and BWP 302 million as at 31 December 2019.</p> <p>The expected credit loss (ECL) model applied to measure impairment requires management to exercise significant judgement in the determination of expected credit losses.</p> <p>Management calculates the ECL using statistical models. In the current year management changed the methodology used to determine ECL from a single default methodology to a technical default methodology.</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); • Determination of macroeconomic inputs and forward looking information into the SICR assessment and ECL measurement; and • Estimation of the probability of default, the exposure at default and the loss given default. <p>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.</p> <p>Due to the significance of the loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL, the impairment of loans and advances to customers was considered to be a key audit matter.</p>	<p>Our procedures included the following:</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> — We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan 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 Group's and the Company's loan origination process and credit reviews. — Where expected credit losses were calculated on a modelled basis, we performed the following procedures, in conjunction with our credit risk specialists: <ul style="list-style-type: none"> • We critically assessed the ECL models developed by management by using a challenger model and applying independent inputs to evaluate the appropriateness of the ECL model and output; • 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; and • We assessed the collateral valuation techniques applied against the credit policy and industry standards. — We evaluated the appropriateness of management's additional post model overlays by independently assessing the reasonability of the assumptions and judgements made by management. — We evaluated the adequacy of the financial statement disclosures against the requirements of IFRS 9: Financial Instruments and IFRS 7: Financial Instruments Disclosures.



Other information

The directors are responsible for the other information. The other information comprises the Directorate, management and administration, Directors' report and the Directors' statement of responsibility and approval, which we obtained prior to the date of this auditor's report, and the "Annual report for the year ended 31 December 2019", which is expected to be made available to us after that date. The other information does not include the consolidated and 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 and will 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 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 of the consolidated and separate financial statements which give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana, 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's 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 and/or the Company or to cease operations, or have no realistic alternative but to do so.

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 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 Group's and 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 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/or the Company to cease to continue as a going concern.



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

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether these 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 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, related safeguards.

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.


KPMG

Certified Auditors

Practicing member: AG Devlin 19960060

31 March 2020

Gaborone