

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST NATIONAL BANK OF BOTSWANA LIMITED

Opinion

We have audited the Consolidated and Separate Financial Statements ('the financial statements') of First National Bank of Botswana Limited ('the Company') and its subsidiaries ('the Group'), set out on pages 13 to 117, which comprise the consolidated and separate statements of financial position as at 30 June 2019, and the consolidated and separate income statements, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the Consolidated and Separate Financial Statements, including a summary of significant 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 the Company as at 30 June 2019, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part 4A and 4B), 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 responsibilities in accordance with these requirements applicable to performing audits in Botswana. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE SHAREHOLDERS OF FIRST NATIONAL BANK OF BOTSWANA LIMITED

Key Audit Matter

How the matter was addressed in the audit

Impairment of Advances (Consolidated and Separate)

The Group and Company adopted IFRS 9, *Financial Instruments* ('IFRS 9'), from 1 July 2018. IFRS 9 requires impairment losses to be evaluated on an expected credit loss ('ECL') basis instead of the incurred loss basis under International Accounting Standard 39: *Recognition and measurement* ('IAS39').

Determining ECL estimates is complex and highly judgmental because it involves a high degree of estimation uncertainty. In this respect, IFRS 9 requires management to estimate ECL for the Group and Company using probability weighted forward looking information. These ECLs impact the carrying amount of the Group's and Company's portfolio of financial assets, recognised at amortised cost.

ECLs are determined on a collective basis for large homogeneous portfolios, typically retail and commercial exposures. This requires the use of statistical models incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the models, analysing data and determining the most appropriate assumptions and estimates.

Corporate advances are typically individually significant and the ECL calculation of impairments is largely individually assessed and inherently judgemental in nature.

The ECLs that are significant to the Consolidated and Separate Financial Statements are:

- Collectively assessed ECL for retail and commercial advances;
- Individually assessed Corporate advances.

Due to the considerable judgement required to estimate the ECL, we have considered this matter to be of most significance to the audit. The impact of macro-economic events, including negative economic sentiment and volatility in global markets result in a

Our audit of the impairment of advances included, inter alia, the following audit procedures performed with the assistance of our credit and actuarial specialists:

- Across all significant portfolios we assessed the advances impairment practices applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models; and
- We assessed First National Bank of Botswana Limited's probability-weighted macroeconomic scenario reports and analysed the outlined methodology, scenario views and associated probabilities in terms of the principles of the IFRS 9 standard, including the review of the approval of these scenario reports through the appropriate governance structures.

We performed the following specific procedures for the portfolios in scope:

Retail and commercial advances

The following procedures addressed the key areas of estimation and significant judgement in determining ECL for retail and commercial advances:

Calibrating of ECL risk parameters (PD, EAD, LGD)

- We tested the design, implementation and, where appropriate, operating effectiveness of relevant controls over the processes used to calculate impairments, including controls relating to data and models which included the re-performance of the ECL model.
- We obtained an understanding of the methodologies and assumptions used by management in the various ECL model components and how these were calibrated to use historical information to estimate future cash flows.

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Key Audit Matter	How the matter was addressed in the audit
<p>challenging operating environment and may have an impact on the credit risk of underlying counterparties, which has an impact on the probability weighted ECLs as part of the consideration of forward looking information.</p>	<p><u>Assessment of SICR</u></p> <ul style="list-style-type: none">• Through applying the assumptions and data included in management's model, including the performance of rehabilitated accounts, we recalculated the impact of SICR.• We tested the performance of SICR thresholds applied and the resultant transfer rate into stage 2 for SICR. This included benchmarking of the volume of up to date accounts transferred to stage 2 based on history.• To determine the impact of change in SICR thresholds on the ECL recognised, we performed a sensitivity analysis of SICR.• We evaluated management's supporting documentation for the performance of behavioural scores, granting scores and the correlation of these to default rates.
<p>The specific areas of significant management judgement within the ECL calculations include:</p> <ul style="list-style-type: none">• The assumptions and methodologies applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD');• The assessment of whether there has been a Significant Increase in Credit Risk ('SICR') since origination date of the exposure to the reporting date (i.e. a trigger event that will cause a deterioration in credit risk and result in migration of the advances from Stage 1 to Stage 2);• The incorporation of forward looking information;• The assumptions used for estimating the recoverable amounts (including collateral) and timing of future cash flows, particularly for credit impaired advances; and• Management, in certain circumstances apply judgement, recognise additional ECL (in the form of post model adjustments) where there is uncertainty in respect of the models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the maturity of the models, the timing of model updates and macro-economic events which could impact corporate, retail and commercial consumers.	<p><u>The incorporation of forward looking information and macro-economic variables</u></p> <ul style="list-style-type: none">• We considered the assumptions used in the forward looking economic model, the macro-economic variables considered as well as the macro-economic outlook. We compared these to our own actuarial statistics and independent market data.• We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.
<p>Related disclosures in the Consolidated and Separate Financial statements:</p> <ul style="list-style-type: none">• Note 1.4 - Accounting policy for financial instruments;• Note 1.9 - significant judgements and sources of estimation uncertainty;• Note 13 - Advances to customers;• Note 14 - Impairment of advances; and• Note 39 - Financial risk management.	<p><u>Assumptions for determining recoverable amount</u></p> <ul style="list-style-type: none">• We inspected a sample of legal agreements and supporting documentation to assess the valuation, legal right to and existence of collateral. <p><u>Determination of write-off point</u></p> <ul style="list-style-type: none">• For the term lending portfolio, we evaluated management's assessment of historical post write-off recoveries, to determine the point at which there was no reasonable expectation of further recovery.

Key Audit Matter

How the matter was addressed in the audit

Corporate advances

The following procedures addressed the key areas of estimation and significant judgement in determining ECL for corporate advances:

- Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. We assessed, against actual experience and industry practice, the appropriateness of assumptions made by management in determining the level of impairment, including the probability of default and valuation of collateral and the incorporation of the macro-economic variables.
- We tested the performance and sensitivity of the forward looking model in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results.
- We performed independent calculations to assess the reasonability of the credit risk parameters calculated by management.
- We inspected a sample of legal agreements and supporting documentation to assess the valuation, legal right to and existence of collateral.
- We selected advances with no indicators of significant increase in credit risk and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk.

Post model adjustments

We considered the potential for ECL to be affected by events which were not captured by the model assumptions due to timing or other inherent limitations (such as changes in economic conditions). We assessed the reasonableness of event driven adjustments raised by management, based on our understanding of the industry, emerging risks and regulatory changes.



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Key Audit Matter	How the matter was addressed in the audit
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Furthermore, based on the assessment of the ECL models apparent in the Group and Company, we considered effects already taken into account by the ECL models to determine whether the impact of the post model adjustments was not double counted.

In conclusion, we determined the impairment of allowances to be adequate and related disclosures to be appropriate.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Responsibility Statement, Directors' Report, Report of the Audit Committee, Value Added Statements and Five Year Financial Summary, which we obtained prior to the date of this auditor's report and the Annual Report which will be made available after the date of our independent auditor's report. 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 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 and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards 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.

The directors are responsible for overseeing the Groups' and Company's financial reporting process.



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF FIRST NATIONAL BANK OF BOTSWANA LIMITED**

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's 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 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 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 Audit Committee 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.



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
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We also provide the Audit Committee 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 Audit Committee, 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.

Deloitte + Touche

Deloitte & Touche
Certified Auditors
Practicing Member: Pragnaben Naik (CAP 007 2019)

Gaborone
19 August 2019