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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 14 to 80, which comprise the statements of financial position as at 31 December 2018, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the 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 2018, 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.

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and company 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 2.4.2 - Impairment of financial assets,
Note 2.22 - Transitional IFRS 9 notes,
Note 3.1 - Credit risk,
Note 4.2 - Measurement of expected credit loss – 2018 only,
Note 6 - Changes in expected credit losses
Note 20 - Loans and advances to customers.

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
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The Group and the Company’s core business involves providing loans and advances to individuals and corporate customers.
The Group and company’s gross loans and advances amount to BWP6.12billion as at 31 December 2018 (2017:BWP5.89billion) and impairment allowance for the year amount to BWP303million as at 31 December 2018 (2017:BWP94million).
On 01 January 2018, the Group and Company adopted IFRS 9: Financial Instruments (“IFRS 9) which measures impairment using an expected credit loss (“ECL”) model.
The application of the new standard requires management to exercise significant judgements in the determination of expected credit losses, including those relating to loans and advances to customers. Management applies significant judgment in the determination of estimated future cash flows, probabilities of default and forward looking economic expectations.
The impairment provision is considered separately on an individual (specific) and collective impairment basis.
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Our procedures included the following:
- 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 impairment losses, the governance processes implemented for credit models and inputs, and management’s oversight over the loan provisions.
- We evaluated the design and implementation and the operating effectiveness of controls relating to the Group and the Company’s loan origination process and credit reviews.
- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of IFRS 9: Financial Instruments.
- We evaluated the adequacy of the financial statement disclosures, including disclosures of:

key assumptions, judgments and sensitivities;
the classification of 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 loans and advances to customers and retained earnings.

Where credit losses were calculated on a modelled basis we performed the following audit procedures, in conjunction with our credit risk specialists:
- Critically assessed the ECL models developed by management. This included using our credit risk specialists in our assessment of key judgements and assumptions applied in the calculation of individual and portfolio provisions with consideration for internal business practice as well as industry norms. Our credit risk specialists re-performed model calculations to confirm the risk parameter inputs.
- We assessed completeness, accuracy and validity of data and inputs used during the development and application of the ECL models.
- Assessed the reasonableness of forward-looking information incorporated into the credit loss calculations.
- Challenged the parameters and significant assumptions applied in the calculation models and reviewed the staging methodology.
- Assessed the appropriateness of management’s additional adjustments in light of recent economic events and circumstances and other factors that might not yet be fully reflected in the modelled results by independently assessing the reasonability of the assumptions and judgements made by management.
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The key audit matter	How the matter was addressed in our audit
Retail exposures (collective impairment basis) A significant portion of the loan book impairment is calculated on a collective basis. In calculating the impairment provision, statistical models are used. The following inputs to these models require significant management judgement: - the probability of default (PD); - the exposure at default (EAD); - the loss given default (LGD); and - the effective interest rates.	*Retail exposures (collective impairment basis)* Where impairments had been made on a portfolio basis, our credit risk specialists performed the following procedures: • Re-performed the calculation of the ECL using independent inputs. • Performed an independent ECL estimate based on the input parameters using a challenger model and compared the ECL output to the Group and Company's ECL.
Wholesale exposures (specific impairment basis) Expected credit losses on individually large exposures and credit impaired loans are measured individually. Significant judgements, estimates and assumptions have been made by management to: • Determine if the loan or advance is credit impaired; • Evaluate the adequacy and recoverability of collateral; • Determine the expected cash flows to be collected; and • Estimate the timing of the future cash flows. Due to the significance of the loans and advances to customers and the significant estimates and judgement involved, the impairment of these loans and advances was considered to be a key audit matter.	*Wholesale exposures (specific impairment basis)* Where impairments had been performed on an individual basis, our procedures included: • We challenged the valuation of credit losses for a sample of loans and advances that had been incurred, including developing our own expectation of the amount of the expected credit losses and compared to management's calculation. • Where specific (stage 3) credit losses have been raised, we considered the impairment indicators, uncertainties and assumptions applied by management. In addition, we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to current economic performance, assumptions most commonly used in the industry, and comparison with external evidence and historical trends. • Inspected a sample of legal agreements and supporting documentation to confirm the existence and legal right to collateral. • We assessed collateral valuation techniques applied against group policy and industry standards.

Other Information

The directors are responsible for the other information. The other information comprises Directorate, management and administration, Directors' report and the, Directors' statement of responsibility and approval and all the information contained in the annual report, which is expected to be made available to us after that date. 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, 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 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 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 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.
- 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.

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Certified Auditors
Practicing member: AG Devlin 19960060
29 March 2019
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