PO Box 778
Gaborone
Botswana

Deloitte & Touche
Assurance & Advisory Services
Chartered Accountants
Deloitte House
Plot 64518
Fairgrounds
Gaborone
Botswana

Tel: +(267) 395 1611
Fax: +(267) 397 3137
www.deloitte.com

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 12 to 121, which comprise the consolidated and separate statements of financial position as at 30 June 2020, 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 2020, 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 Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together 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 and 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 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 matt

Impairment of Advances (Consolidated and Separate)

Key Audit Matter

IFRS 9 expected credit losses (ECL) remains an area of significant management judgement and estimation uncertainty. Following initial adoption, the Bank continued to enhance models, processes and judgements over the course of the year in response to known limitations and as part of the ongoing annual improvements. The current year has been further complicated by the impact of the Covid-19 pandemic and related lockdown on the broader economy. This adds further uncertainty particularly around applying forward-looking information to predict the impact on default rates and the realisation of collateral.

The Bank's advances broadly fall into three customer segments, being Retail and Commercial as part of the FNB business and Corporate/Wholesale which forms part of the RMB business. We have set out below the risks and responses based on the ECL approach adopted.

The impairment of advances was considered to be a matter of significant importance to our current year audit due to the following:

- Advances are material to the financial statements;
- The level of subjective judgement applied in determining the ECL on advances;
- The uncertainty related to unprecedented global and local economic stress.

Collectively assessed ECL

Where advances are a large homogenous population of customers the ECL is calculated on a collective or portfolio basis. The Bank uses a number of complex statistical models across all segments incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the credit impairment models, analysing data and determining the most appropriate assumptions and estimates.

How the matter was addressed in the audit

Across all significant portfolios we assessed the ECL policies and judgements applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and, where appropriate, operating effectiveness of relevant financial reporting controls over the processes used to calculate impairments, including controls relating to data and models. The results of our testing were appropriate and we relied on these controls as part of our audit approach.

Below is a summary of the substantive procedures performed for each segment:

Retail and commercial advances

We performed the following procedures on the ECL for retail and commercial advances with the assistance of our credit and actuarial experts:

- Obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and assessed these against the requirements of IFRS 9 and best practice;
- Assessed the reasonableness of the SICR criteria adopted by management and tested whether this was correctly and consistently applied in the models;
- Assessed the application of forward looking information in the ECL calculation, This included selection of relevant macro-economic variables such as gross domestic product (GDP) and the central bank rates, and assessing whether these variables were appropriate indicators of future losses;
- Confirmed that the latest available and relevant probability weighted forward-looking information has been appropriately incorporated within the impairment models by comparing these to widely available market data;
- Assessed the accuracy of the Bank's model output at a parameter level and in total against our independent challenger model output, and investigated any material variances;
- Inspected a sample of legal agreements and supporting documentation to assess the legal right to and existence of collateral.

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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
The inputs into the modelling process require significant management judgement, including: • The input assumptions and methodologies applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) within the ECL calculations; • The assessment of whether there has been a significant increase in credit risk (SICR) event since origination date of the exposure to the reporting date. IFRS 9 requires that accounts reflecting signs of SICR should be reported as Stage 2 and attract a lifetime ECL provision, relative to Stage 1 accounts which attract a 12-month ECL; • The determination of the lifetime of a financial instrument subject to ECL assessment; and • The incorporation of unbiased probability weighted forward-looking information. Particularly in the current year where the COVID-19 pandemic has resulted in a significant reduction in economic activity which has an impact on unemployment levels and the realisation of collateral. There remains significant uncertainty around the recovery path which has a significant impact on ECLs. **Individually assessed ECL** The Bank individually assesses ECL for watch list accounts and accounts that are credit impaired (Stage 3). All watchlist accounts are considered to have SICR and attract a lifetime ECL. Given the judgemental nature of assessing watchlist accounts, there is a risk that not all accounts showing signs of SICR are appropriately identified. The other key judgements we consider significant are: • estimation of the recoverable amounts and timing of future cash flows, including the use of discounted cash flow models; and • valuation of collateral held.	**Corporate advances** We performed the following procedures on the ECL for corporate advances with the assistance of credit and actuarial experts: • Tested controls over the credit risk management and governance processes when advancing new facilities or restructuring existing facilities; • 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. Assessed, against actual experience and industry practice, the appropriateness of assumptions made in determining the applicable macroeconomic inputs, credit ratings, EAD, PD, LGD and valuation of collateral in the current economic climate; • Tested the performance and sensitivity of the forward looking information 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; • Assessed 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. • Selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk.

Key Audit Matter	How the matter was addressed in the audit
Out of model adjustments and overlays Across all portfolios, management applies judgement to recognise additional ECL (in the form of overlays and out of model adjustments) where there is uncertainty in respect of the models' ability to accurately predict future losses. This could be due to data limitations, inability to accurately model emerging risks due to inherent limitations of modelling based on past performance, and macro-economic events that are not adequately captured by the models. We consider out of model adjustments and overlays as a significant risk across all segments given the high level of judgement inherent in these. In the current year a significant proportion of the overlays relate to the impact that the COVID-19 pandemic is expected to have on default rates and realisation of collateral. Related disclosures in the Consolidated and Separate Financial statements: • Note 1.4 - Accounting policy for financial instruments; • Note 1.8 - significant judgements and sources of estimation uncertainty; • Note 13 - Advances to customers; • Note 14 - Impairment of advances; and • Note 39 – Financial risk management.	**Out of model adjustments and overlays** • We challenged the validity and reasonableness of overlays recorded by management by ensuring each overlay was related to a known model weakness or model limitation; • We challenged the key assumptions and judgements related to each overlay to ensure that these were reasonable and supportable using available Bank information or other widely available market data; • Considered the need for any other overlays not considered by management based on our expert judgement and widely available information; and • Performed a top down test of the reasonableness of the overall ECL provisions under stressed conditions to assess whether adequate provisions were recorded given the uncertainty brought about by Covid-19. In conclusion, we determined the impairment of allowances to be adequate.

Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Audit Committee, Directors' Responsibility Statement, Directors' Report, Value Added Statements and Five Year Financial Summary which we obtained prior to the date of this auditor's report as well as 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.

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

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 Group's and Company's financial reporting process.

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.

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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 (Continued)

- 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.

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 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.

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Deloitte & Touche
Certified Auditors
Practicing Member: Pragnaben Naik (CAP 007 2020)

Gaborone
20 August 2020