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## **Independent Auditor's Report**

### **To the Shareholders of Standard Chartered Bank Botswana Limited**

#### ***Opinion***

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited (the group and company), which comprise the statements of financial position at 31 December 2019, and the statements of profit or loss and other 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, as set out on pages 11 to 77.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited 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***

Covid-19 affects the group and 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 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 financial statements. The appropriateness of the going concern assumption depends on assessment 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 unknown factors or all possible future implications for a group and 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 notes 3 (h) and (i) on related accounting policies, note 2(e) relating to the application of judgments and estimates in the determination of credit impairment, note 4.2 on credit risk management, note 9 relating to impairment loss on financial assets and note 18 on loans and advances to customers.

Key audit matter	How the matter was addressed
<p>The group's and company's core business involve providing loans and advances to individuals and corporate customers. As a result, the main component of the group's and company's financial assets comprise loans and advances to customers which represent 50% of total assets for both the group and company, and the associated impairment allowances. Loans and advances to customers are significant in the context of the consolidated and separate financial statements.</p> <p>Expected credit losses (ECL) relating to loans and advances to customers represent management's best estimate of the losses expected to be incurred within the loan portfolios at the reporting date.</p> <p>Management exercises significant judgements in the determination of expected credit losses relating to loans and advances to</p>	<p>Our audit work included the following procedures:</p> <ul style="list-style-type: none"> <li>- We obtained an understanding of management's process over credit origination, credit monitoring and credit remediation and tested the design, implementation and operating effectiveness of the related controls.</li> <li>- We involved our own financial risk modelling specialist in assessing the credit risk modelling approach and methodology, re-performed certain aspects of the model validation and independently evaluated model monitoring results arising in the year.</li> <li>- We tested the design, implementation and operational effectiveness of controls over the assessment and calculation of material SICR indicators and criteria.</li> <li>- We assessed the appropriateness of the accounting policies, loan impairment methodologies applied and the adequacy of the disclosures by comparing these to the requirements of IFRS 9, <i>Financial Instruments</i>.</li> </ul> <p>Where credit losses were calculated on a modelled basis, the following procedures were performed over the model and macro-economic variables in conjunction with our internal credit risk specialists:</p>



<p>customers. Management applies significant judgement in the determination of inputs into the model which include:</p> <ul style="list-style-type: none"> <li>- Significant Increase in Credit Risk (“SICR”)</li> <li>- the probability of default (PD);</li> <li>- the exposure at default (EAD);</li> <li>- the loss given default (LGD); and</li> <li>- forward looking economic expectations based on future macro-economic variables.</li> </ul>	<ul style="list-style-type: none"> <li>- We independently recalculated the PD, EAD and LGD for a sample of exposures, and compared the results to management’s calculations.</li> <li>- We involved our economics specialists to assist us in assessing the appropriateness of the methodology and model for determining the economic scenarios used.</li> <li>- We also assessed the key economic variables used which included benchmarking samples of economic variables to independent external sources.</li> <li>- We assessed and challenged the appropriateness of post model adjustments to model-driven ECL.</li> </ul>
<p><b>Retail banking (RB) portfolio (collective impairment basis)</b></p> <p>A significant portion of the retail impairment is calculated on a collective basis. In calculating the expected credit loss for the RB portfolio, statistical models are used as well as credit scoring analyses.</p> <p><b>Corporate, institutional and commercial banking portfolio (collective and specific impairment basis)</b></p> <p>Corporate, institutional and commercial banking loans are assessed for recoverability on an individual basis. Significant judgements, estimates and assumptions have been made by management to:</p> <ul style="list-style-type: none"> <li>- determine if the loan or advance is credit impaired; and</li> <li>- evaluate the</li> </ul>	<p>For the corporate, institutional commercial banking portfolio:</p> <ul style="list-style-type: none"> <li>- We selected a sample of performing loans and advances and critically assessed the appropriateness of the credit quality and credit ratings through detailed review of the management’s credit assessment forms, score cards and audited financial statements.</li> <li>- We also assessed the appropriateness of management’s processes for identifying changes in credit risk.</li> <li>- For a sample of loans and advances to customers that had been individually assessed and impaired (stage 2 and stage 3), we independently challenged the expected credit losses, including developing our own expectation of the credit loss based on information available from third parties and market trends.</li> <li>- We performed detailed credit assessments of loans and advances with higher risk credit grades and loans in higher risk and economically exposed sectors as communicated by group, through detailed review of the management’s credit</li> </ul>



<p>recoverability and adequacy of collateral through the involvement of specialists.</p> <p>Due to the significance of loans and advances and the significant estimates and judgment involved, the impairment of these loans and advances was considered to be a key audit matter.</p>	<p>assessment forms, score cards and audited financial statements.</p> <ul style="list-style-type: none"> <li>- For collateral held, we inspected legal agreements and supporting documentation to assess the existence and valuation of the collateral as well as the legal right to the collateral. Where specialists engaged by management had provided valuations, we assessed the controls in respect of their appointment.</li> <li>- We also assessed the competence of the valuation specialists, used by management, based on their professional qualifications, experience and assessed their objectivity and independence.</li> </ul>
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**Other Information**

The directors are responsible for the other information. The other information comprises the directors’ report and the directors’ responsibility statement 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. 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 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 the 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'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 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.

**KPMG**

Certified Auditors

Practicing member: Gosego Motsamai (20030026)

Certified Auditor of Public Interest Entity

BAOA Certificate Number CAP 0035 2019

14 April 2020

Gaborone