

Independent Auditor's Report

To the Shareholders of Standard Chartered Bank Botswana Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited and its subsidiaries ("the Group") and Company set out on pages 12 to 85, which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and comprehensive income, the consolidated and separate statements of changes in equity and the 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 Standard Chartered Bank Botswana Limited as at 31 December 2021, and of its consolidated and separate financial performance and of its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04).

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* (including International Independence Standards) (*IESBA Code*) 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 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 matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

The Key Audit Matter applies to both the audit of the consolidated and separate financial statements.

Key Audit Matter	How the matter was addressed in the audit
<p>Credit Impairment (Consolidated and separate financial statements)</p> <p>At 31 December 2021 the Group and Company reported total credit impairment statement of financial position provision of P234 million (2020: P209 million) on loans and advances to customers of P8 billion (2020: P8.3 billion), as disclosed in note 18 to the financial statements.</p> <p>Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Assumptions with increased complexity in respect of the timing and measurement of expected credit losses (ECL) include:</p> <ul style="list-style-type: none"> • Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 - Financial Instruments (IFRS 9). • Model output and adjustments - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL, including the appropriateness, completeness and valuation of post-model adjustments applied to model output to address risks not fully captured by the models. • Economic scenarios - Significant judgements involved with the determination of parameters used in the ECL models and the evaluation of the appropriateness of using the models with regards to whether the simulation can sufficiently capture the non-linearity of ECL and appropriately generate a wide enough range of possible outcomes. • Management overlays - Appropriateness, completeness and valuation of risk event overlays to capture risks not identified by the credit impairment models, including the consideration of the risk of management override; and • Individually assessed ECL allowances - Measurement of individual provisions including the assessment of probability weighted recovery scenarios, exit strategies, collateral valuations and time to collect. <p>The above complexities are further exacerbated by the ongoing COVID-19 pandemic, particularly due to its dynamic nature and the diversity of its impact across industry sectors. The most notable risk in this respect remains the appropriateness of the management COVID-19 overlay recognised within the ECL.</p>	<p>We evaluated the design and operating effectiveness of controls relevant to the Group and Company's processes over material ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. These included:</p> <ul style="list-style-type: none"> • credit monitoring. • controls over the allocation of assets into stages such as management's monitoring of stage effectiveness. • completeness and accuracy of data. • review and approval of multiple economic scenarios. • model governance, including model monitoring, model validation and review and approval of post model adjustments. • review and approval of management overlays; and • review and approval of the individually assessed ECL. <p>In evaluating the controls, we inspected minutes of the management executive forums for evidence of executive review and challenge of credit models and ECL provisions.</p> <p>We performed an overall stand-back assessment of the ECL allowance levels by stage to determine if they were reasonable by considering the overall credit quality of the Group and Company's portfolios, risk profile, impact of COVID-19 including vulnerable sectors.</p> <p>Our assessment also included the evaluation of the macroeconomic environment by considering trends in the economy and industries to which the Group and Company are exposed. We performed peer benchmarking where available to assess overall staging and provision coverage levels.</p> <p>Staging - We evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of financial assets and assessed the reasonableness of staging downgrades applied by management.</p> <p>To test credit monitoring which largely drives the probability of default estimates used in the staging calculation, we challenged the risk ratings for a sample</p>

The disclosure associated with credit impairment of loans and advances is set out in the financial statements in the following notes:

- ▶ Note 3 - Expected credit losses
- ▶ Note 4.2 - Credit risk
- ▶ Note 9 - Expected credit loss on financial assets
- ▶ Note 18 - Loans and advances to customers

of performing accounts and other accounts exhibiting risk characteristics such as financial difficulties, deferment of payment, late payment and watchlist.

We also considered the vulnerable sectors impacted by COVID-19.

Modelled output and adjustments - We performed a risk assessment on models involved in the ECL calculation to select a sample of models to test. We engaged our modelling specialists to evaluate a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design, formulae and algorithms, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default parameters. Together with our modelling specialists, we also assessed material post-model adjustments which were applied as a response to risks not fully captured by the models, including the completeness and appropriateness of these adjustments, for which we considered the applied judgments and methodology, and governance thereon.

To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including, among other data points, balance sheet data used to run the models. We also tested a sample of the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing.

Economic scenarios - For material models, in collaboration with our economists and modelling specialists, we also challenged the completeness and appropriateness of the macroeconomic variables used as inputs to these models.

Additionally, we involved economic specialists to assist us in evaluating the reasonableness of the base forecast for sample of macroeconomic variables most relevant for the Group and Company's ECL calculation influenced by the above assessment. Procedures performed included benchmarking the forecast for a sample of macroeconomic variables to a variety of external sources.

Furthermore, we assessed the reasonableness of the non-linearity impact on ECL allowances. By engaging our economists and modelling specialists, we assessed the Group and Company's choice of scenarios and chosen weights used, and the underlying mechanics and

	<p>formulae to determine the uplift in ECL.</p> <p>Management overlays - We challenged the completeness and appropriateness of overlays used for risks not captured by the models, particularly the uncertainties as a result of the COVID-19 pandemic. Our procedures included evaluating the underpinning assumptions and judgments as to whether they are appropriate in prevailing market conditions.</p> <p>Individually assessed ECL allowances - Our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified and assigned individual probability weightings and recalculating a sample of individually assessed provisions.</p> <p>Where exposures are collateralised, we tested the Group and Company's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. Where management has utilised specialists, we have assessed controls related to their competence and objectivity.</p> <p>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 <i>IFRS 9- Financial Instruments</i>.</p>
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Other Information

Other information comprises the information included on page 1 to 5 of the document titled "Standard Chartered Bank Botswana Limited Consolidated and Separate Annual Financial Statements for the year ended 31 December 2021", which includes the Directors' Responsibility Statement and the Director's Report as required by the Companies Act (CAP 42:01), 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. The directors are responsible for the other information. Other information does not include the consolidated or the 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 identified above 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 the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04) 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 or Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting processes.

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

Our objectives are to obtain reasonable assurance about whether the 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:

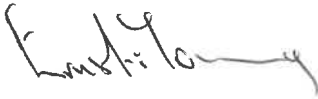
- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 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 and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company 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 actions taken to eliminate threats or safeguards applied.

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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