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Independent Auditor's Report
To the Shareholders of Botswana Insurance Holdings Limited
Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Botswana Insurance Holdings Limited and its subsidiaries (the Group) and company set out on pages 13 to 124, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate income statements, statements of 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 Botswana Insurance Holdings Limited as at 31 December 2020, 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 Insurance Industry Act, 2015.

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 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 financial statements 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. 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.

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The Key Audit Matters apply only to the audit of the consolidated financial statements.

Key Audit Matter	How the matter was addressed in the audit
1. Valuation of policyholder liabilities under insurance contracts (Consolidated financial statements) Botswana Insurance Holdings Limited (the Group) has policyholder liabilities under insurance contracts stated at P10.8 billion as at 31 December 2020 (2019: P10.4 billion) representing 77% (2019: 77%) of the Group's total liabilities. We considered the valuation of policyholder liabilities under insurance contracts to be a key audit matter due to the events explained below. Life insurance actuarial assumptions and methodologies reflected in policyholder liabilities are subject to a considerable level of judgement. The operational assumptions reflected in policyholder liabilities are informed by actual experience, market experience and practice, expectations as to future trends, events and or outcomes. In the current financial period, the following updates to the model and assumptions had a significant impact on the final valuation of the policyholder liabilities under insurance contracts: • The inputs into the model were updated to reflect the current economic environment. Expense inflation increased from 3.5% to 4.5% at December 2020 which directly impacted the asset class returns. • In the current year, maintenance expense assumptions were updated to reflect the latest expectations on future costs. • The Mompati & Mmoloki actuarial products escalation take up, the withdraw rate assumptions, the Mmoloki & Annuitant mortality assumptions including the Group	The following audit procedures, amongst others, were executed with the assistance of the EY actuarial specialists: ➢ We assessed the valuation methodology and assumptions against the latest actuarial guidance, legislation, regulatory, financial reporting requirements and approved company policy. ➢ We assessed the key inputs (the Mompati & Mmoloki actuarial products escalation take up, the withdraw rate, the Mmoloki & Annuitant mortality and the maintenance expense assumptions) in the model by comparing to economic conditions and industry norms. ➢ We assessed management's "experience investigation" results in relation to the change in the mortality basis and evaluated the impact on the policyholder liabilities under insurance contracts relating to annuities. ➢ We evaluated the changes to the economic assumptions of the long-term inflation rate and the discount rate for the policyholder insurance contract liability by assessing management's rationale for the changes made and comparing to industry standards. ➢ We evaluated the key sources of profit and loss and assessed management's analysis of movements in the policyholder liabilities under insurance contracts, and tested large and unexpected movements. ➢ We considered the level of margins held in the policyholder liabilities under insurance contracts, management's justification for holding these margins and how these will be released in the future. ➢ Where manual adjustments were applied to the policyholder insurance contract liabilities, we assessed the nature of the adjustments by reviewing approvals, supporting documentation and management explanations. ➢ We evaluated the key controls over management's collection, extraction and data validation processes, which included testing of the reconciliations between the policy administration systems to the model point file system. ➢ We evaluated the updates made to the expense allocation model by assessing management's rationale for the changes made. ➢ We evaluated the adequacy of the COVID-19 lapse and mortality reserves as well as the reasonableness

business credit loss ratios were updated to reflect changes in the operating environment. • Updates were made to the expense allocation model to align costs with changes in the operating environment at the subsidiary level. A COVID-19 lapse reserve was set up during the year. The purpose of the reserve is to allow for the expected impact of the COVID-19 pandemic on lapses, as it is expected that COVID-19 will have a negative impact on lapses due to the subdued economic activity. Since the lapse assumptions are currently based on pre-COVID-19 data, BIHL Group have set up the COVID-19 lapse reserve to account for the expected increase in lapses as a result of COVID-19. Data is a key input into the valuation process. The calculation of insurance contract liabilities has a number of inputs, which are reliant on various processes and systems for accurate and complete data. Significant audit attention is spent on validating the data. Refer to the 2020 section of the accounting policies, Note 5 - Significant accounting judgements, estimates and assumptions of the Group financial statements and Note 8 - Policyholder liabilities of the Group financial statements.	of the key assumptions supporting the reserve. ➢ We assessed the adequacy and completeness of the disclosures regarding the policyholder liabilities under insurance contracts in the consolidated financial statements to determine whether they were in accordance with mainly *IFRS 4 - Insurance Contracts.*
2. Valuation of investment in associate - Letshego Holdings Limited (Consolidated financial statements) The valuation of the investment in Letshego Holdings Limited continues to be a key audit matter given the economic and regulatory environments in which the entity operates. Letshego is listed on the Botswana Stock Exchange and operates in Botswana with subsidiaries in a number of African countries. An impairment assessment exercise was carried out by management to determine whether the carrying amount of the investment exceeds its recoverable	The audit team, together with the EY valuation experts, performed the following procedures, amongst others: ➢ We assessed the valuation methodology and assumptions applied by management to value the investment in the associate. This involved an assessment of the valuation methodology against industry norms and the asset type; an evaluation of the expectations of future cashflow projections; an evaluation of the accuracy of management's forecasts; and a comparison of current performance to forecasted performance. ➢ We evaluated management's forecast of the

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amount, with the recoverable amount derived from the higher of a discounted cashflow (DCF) valuation and the company's fair value.

Assumptions in the DCF valuation model, such as growth rates and risk discount rates requires significant management judgement.

During the year, changes were made on three key assumptions:

The inflation rate due to the effect of changes in the economic environment;
The effective tax rate as a result of changes in the financial perfomance of the entity; and
The risk-free rate.

These have high sensitivity to the ultimate DCF valuation amount. Using the discounted cashflow method, Letshego Holdings Limited was valued at P1.204 billion in the current year, compared to P1.185 billion in the prior year. The carrying amount stood at P1.178 billion compared to P1.132 billion.

Accordingly, the above audit matter is considered a Key Audit Matter.

Refer to Note 5 - Significant accounting judgements, estimates and assumptions of the Group financial statements and Note 4.5 - Interest in associates and joint ventures of the Group financial statements.
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Letshego group based on our understanding of the locations in which the Letshego group operates.

We assessed the mathematical accuracy of the valuation models by recalculating the DCF valuation.
We evaluated the cash flow projections used for valuation against the associate's most recent financial performance and assessed the inputs into the cashflow projections.
We evaluated the long-term growth rates used to extrapolate the cash flows, the risk discount rates, the risk-free rate, the tax rate and the duration to discount in perpetuity assumptions. We compared these to available industry, economic and financial data, and to market outlook.
We performed a sensitivity analysis to assess the impact of the changes to the inputs on the valuation of the investment in associate.
We assessed the adequacy and completeness of the disclosures regarding the associates in the consolidated financial statements to determine they were in accordance with mainly IAS 36 - Impairment of Assets and IFRS 12 - Disclosure of Interests in Other Entities.

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3. Valuation of investment property and investments in unlisted property funds (Consolidated financial statements)

Investment properties and investments in unlisted property funds were stated at fair value of P1.066 billion as at 31 December 2020 (2019: P851 million).

During the current financial year the investment property values were determined by using valuation methods (sales comparison, depreciated replacement cost, income capitalisation, discounted cash flow) and data inputs (future rental cash inflows, capitalisation rates, direct comparable sales price per square metre, rent escalation rates, building cost rates, discount rates) as set out in Note 4.4 – Investment property and investments in unlisted
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The audit team, together with the EY valuation experts, performed the following procedures, amongst others;

We evaluated management's internal and external valuer's competence, capabilities and objectivity.
We evaluated the appropriateness of the valuation approaches and methodologies used by management's internal and external valuers against IFRS requirements and industry norms to confirm that the methodologies were appropriate under the circumstances.
We tested the arithmetical accuracy of the investment property valuation calculations, budgets and cashflows and vouched the source data used.
We evaluated management's considerations of the impairment indicators of the investments. We

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property funds. These valuations were performed by accredited independent valuers. Significant judgement is required to determine the fair value of investment property, especially with respect to the determination of unobservable inputs namely the discount rate and the long-term growth rates utilised. As a result significant audit attention is spent on and this and we consider this to be a key audit matter. Refer to Note 7 – Summary of significant accounting policies of the Group financial statements and Note 4.4 – Investment in property and investments in unlisted property funds of the Group financial statements.	reviewed the underlying assumptions (the implied capitalisation rate, the growth assumptions), supporting the DCF valuation model and assessed their reasonableness against entity specific, historical experience, property market circumstances and achievability and sustainability. ➢ We assessed that the valuations were performed at the correct and appropriate date. ➢ We also assessed the adequacy of the disclosures in Note 4.4 Investment property and investments in unlisted property funds in accordance with the requirements of mainly *IFRS13 - Fair Value Measurement* and *IAS 40 Investment Property.*

Other Information

Other information comprises the information included on page one to five of the document titled "Botswana Insurance Holdings Limited Annual Financial Statements for the year ended 31 December 2020", which includes the Report of The Independent Actuary 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 Integrated 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 Insurance Industry Act, 2015 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.

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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 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 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.

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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.

Ernst & Young
Practicing member: Thomas Chitambo
Partner
Certified Auditor
Membership number: 20030022
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10/3/24