

**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 120, 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, the consolidated and separate 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 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 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
<p><b>1.Valuation of policyholder liabilities</b></p> <p>Botswana Insurance Holdings Limited (the Group) has policyholder liabilities stated at P10.4 billion as at 31 December 2021 (2020: P10.8 billion) representing 70% (2020: 77%) of the Group's total liabilities.</p> <p>The actuarial assumptions and methodologies involve significant management judgement regarding future events which are both internal and external to the Group. Small changes in the assumptions used can result in a material impact to the valuation of the policyholder liabilities</p> <p>The operational assumptions are informed by the Group's actual experience investigation analysis, market data / practice and expectations of future trends. Economic assumptions are typically based on the latest market conditions and are set in accordance with relevant guidance and the approved Group's policy. The assumptions that we consider requiring the most significant auditor's attention due to the impact on the life insurance actuarial valuations were:</p> <ul style="list-style-type: none"> <li>• Mortality, longevity, and morbidity</li> <li>• Persistency</li> <li>• Expenses</li> <li>• Risk discount rates and</li> <li>• Allowance for credit defaults</li> </ul> <p>Due to the COVID-19 pandemic there is a higher level of uncertainty in respect of mortality, longevity, and persistency assumptions, and management applied more judgement, therefore we required our actuarial specialist to assess management's specific adjustments in this regard.</p> <p>In addition to the above, 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</p>	<p>The following audit procedures, amongst others, were executed with the involvement of our internal Actuarial specialists:</p> <ul style="list-style-type: none"> <li>➤ We evaluated the design and tested the operating effectiveness of the key aspects of the control environment over data integrity, including an evaluation of the effectiveness of the IT environment over the policy administration systems, together with the data extraction and conversion processes.</li> <li>➤ We obtained an understanding, evaluated the design and tested the operating effectiveness of the key controls related to the actuarial valuation process for the setting and updating of actuarial assumptions.</li> <li>➤ We assessed the methodologies used to derive assumptions against the latest actuarial guidance, legislation, regulatory, financial reporting requirements and approved Group policy.</li> <li>➤ We inspected the results of management's "experience investigation" analysis including base mortality, morbidity, expenses, risk discount rates, allowance for credit defaults and persistency to assess whether the adopted assumptions have incorporated the results of the analysis, and appropriately allowed for trends in experience.</li> <li>➤ Where actuarial judgement has been applied, we assessed the justification provided by management by benchmarking to similar situations.</li> <li>➤ We evaluated the assumptions applied by management in determining key economic assumptions such as the valuation rate of interest, to assess whether these were reflective of the assets backing insurance contract liabilities. This included performing spot checks to assess the accuracy of key input assumptions, as well as to inspect whether the rates applied in the valuation models were consistent with the agreed methodology.</li> <li>➤ We assessed management's approach to allow for the impact of the COVID-19 pandemic on the assumptions including management's allowance</li> </ul>

<p>accurate and complete data. A breakdown of the controls around these processes and applications could result in a misstatement of the value of insurance contracts. Given its complexity and significance the valuation of policyholder liabilities has been considered as a key audit matter.</p> <p>Refer to the 2021 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</p>	<p>for expected risk claims by reviewing management's claims scenarios and compared it to the existing reserves; particularly after the COVID-19 claims experience in the current year</p> <ul style="list-style-type: none"> <li>➤ We performed an evaluation of the key controls over management's collection, extraction and data validation processes, which included testing of the reconciliations between the policy administration systems and the data sent to the model point file system.</li> <li>➤ We assessed the adequacy and completeness of the disclosures regarding the policyholder liabilities in the consolidated financial statements to determine whether they were in accordance with mainly <i>IFRS 4 - Insurance Contracts</i>.</li> </ul>
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<p><b>2. Valuation of the investment in associate - Letshego Holdings Limited</b></p> <p>Using the discounted cashflow method, Letshego Holdings Limited was valued at P1.434 billion in the current year, compared to P1.204 billion in the prior year. The carrying amount at 31 December 2021 was P1.374 billion (2020: P1.178 billion).</p> <p>The assessment of the impairment of Letshego Holdings continued in the current year due to the diverse economic and regulatory environments in which it operates as well as the ongoing COVID-19 pandemic, particularly due to its dynamic nature and the diversity of its impact across geographies and time.</p> <p>The determination of the appropriateness of the macro-economic assumptions such as growth rates and risk discount rates used in the discounted cash flow (DCF) model which is used to assess the potential impairment of the associate required significant judgement. The DCF is modelled by reference to future cashflow forecasts over a ten- year period. Evaluating management's assumptions and judgements required additional audit effort and the use of valuation specialists.</p> <p>During the year, changes were made to the growth rate assumptions and cashflows beyond five years</p>	<p>The following audit procedures, amongst others, were executed with the involvement of our internal valuation specialists:</p> <ul style="list-style-type: none"> <li>➤ 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; an evaluation of the expectations of future cashflow projections; an evaluation of the accuracy of management's forecasts; a comparison of current performance to forecasted performance and the evaluation of the impact of COVID-19 on the inputs and assumptions used.</li> <li>➤ We evaluated management's forecast of the Letshego group based on our understanding of the geographic locations in which the Letshego group operates.</li> <li>➤ 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.</li> <li>➤ We evaluated the appropriateness of inputs that required significantly more judgement, such as growth rates (including the impact of the COVID-19 pandemic on future income growth rates) by benchmarking inputs against those of other</li> </ul>
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were extrapolated using a 9% growth rate (2020 – 3%).

The final discounted cashflow valuation is highly sensitive to these changes and these required increased audit focus in the current financial year.

There is an increased risk in the current year due to impact of COVID-19 pandemic on the future income growth rates.

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.

comparable industry participants.

- We performed a reasonability test for which our valuation specialists assisted us in providing a range of indicative equity values using a multiples-based approach, adjusting for entity specific factors and then comparing the result to similar companies.
- We assessed the mathematical accuracy of the valuation model by recalculating the DCF model.
- 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*.

#### *Other Information*

Other information comprises the information included on page one to six of the document titled “Botswana Insurance Holdings Limited Annual Financial Statements for the year ended 31 December 2021”, 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.

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.

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  
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Certified Auditor  
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Gaborone

8 March 2022