BIHL GROUP

BOTSWANA INSURANCE HOLDINGS LIMITED

2021 INTEGRATED ANNUAL REPORT

DURABLE, SUSTAINABLE AND ROBUST TO DELIVER ON OUR PROMISE

CONTENTS

KEY ACHIEVEMENTS IN 2021

REVENUE

Net insurance premium income increased by
7% to P3,1 billion

Recurring premium income increased by
15% to P1,9 billion

Fee revenue increased by
17% to P128 million

Value of new business increased by
37% to P176 million

ASSETS UNDER MANAGEMENT

Assets under management (AUM) increased by
19% to P36 billion

EARNINGS

Operating profit decreased by
56% to P171 million

Core earnings decreased by
54% to P197 million

Share of profits of associates increased by
19% to P305 million

Profit attributable to equity holders decreased by
27% to P388 million

SOLVENCY

The business is well capitalised; required capital for the group subsidiaries is covered
6,8 times
(2020: 6,3 times)

EMBEDDED VALUE

Embedded value increased by
11% to P5,33 billion
(2020: P4,78 billion)

Return on group embedded value was
12%
(2020: 13%)

DIVIDENDS

P184 million net of tax
paid as dividends during the period
(2020: P424 million *net of tax*)

Final dividend proposed
P200 million
net of tax
(2020: P184 million net of tax)

PEOPLE

382 employees
(2020: 363)

REACH

304 766 active policies
(2020: 301 428)

MARKET SHARE

Botswana Life Insurance Limited's (Botswana Life) market share:
71%
(2020: 69%)

ABOUT THIS REPORT

REPORTING SCOPE AND BOUNDARY

Botswana Insurance Holdings Limited (BIHL or the company) presents its integrated annual report which covers our performance for the year ended 31 December 2021.

This report includes material information for our stakeholders about our financial, economic, social and environmental performance for the year under review. It also demonstrates our performance against our previously stated plans. The content encompasses all divisions and subsidiaries of the company across all regions of operation in Botswana and our associates in Eswatini, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

We provide insights into matters of importance to our stakeholders, highlighting how the organisation is governed, the material matters we identified and the risks and opportunities that could impact our business. We set out how we believe these factors influence our business model, strategic objectives and future plans, which play out in the context of creating and sustaining value for our stakeholders in the short, medium and long term.

REPORTING PRINCIPLES AND FRAMEWORK

In compiling the report, we applied international and Botswana reporting guidelines and best practices, including:

- Botswana Stock Exchange (BSE) Listings Requirements
- International Financial Reporting Standards (IFRS)
- Botswana Institute of Chartered Accountants (BICA) Financial Reporting Guides
- King IV Report on Corporate Governance for South Africa, 2016™ (King IV™)
- Revised International Integrated Reporting Framework (<IR> Framework) issued by the Value Reporting Foundation in January 2021
- United Nations Sustainable Development Goals, and
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

as well as the relevant regulations and directives in force under the laws of Botswana.

The annual financial statements are presented in Pula, which is considered to be the group's presentation currency. For more information, refer to the annual financial statements on pages 109 to 217.

MATERIALITY

This report discloses the group's approach to sustainability and identifies and explains the material environmental, social and governance (ESG) issues facing the group and their impact. The board has considered matters viewed as material to the business of the BIHL Group and its stakeholders. These are determined through board discussion, market research, stakeholder engagement, continuous risk assessments and the review of prevailing trends in our industry and the global economy.

Sustainability issues that are not considered material to our business are not discussed in this report. This approach should enable stakeholders to accurately evaluate the BIHL Group's ability to create and sustain value over the short, medium and long term.

Management is not aware of the unavailability of any reliable information or any legal prohibitions to disclosing any material information.

FORWARD-LOOKING STATEMENTS

This integrated annual report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 31 December 2021. Actual results may differ materially from the company's expectations if known and unknown risks or uncertainties affect its business, or if estimates or assumptions prove inaccurate. The company cannot guarantee that any forward-looking statement will materialise, and, accordingly, readers are cautioned not to place undue reliance on these forward-looking statements. The company disclaims any intention and assumes no obligation to update or revise any forward-looking statement even if new information becomes available as a result of future events or for any other reason, save as required to do so by legislation and regulation.

The group's external auditor and assurance providers have not assured these statements.

CORPORATE INFORMATION

Contact details for BIHL are set out on the inside back cover and at https://www.bihl.co.bw

FEEDBACK

A hard copy of this integrated annual report is available on request as well as online at https://www.bihl.co.bw/investor-relations-pages. We are committed to improving this report each year and appreciate and encourage constructive feedback. Please forward comments to **hndzinge@bihl.co.bw**

ASSURANCE

To comply with Botswana law and the BSE Listings Requirements, the company's annual financial statements (comprising the consolidated annual financial statements) were audited by an independent auditor – Ernst & Young. Their unqualified independent auditor's report is set out on pages 104 to 108. The scope of their audit is limited to the information set out in the annual financial statements on pages 109 to 217.

The combined assurance model is set out below.

Business process	Nature of assurance	Assurance provider
Annual financial statements	External audit	Ernst & Young
Internal control processes	Internal audit services	Internal audit services with the assistance of Sanlam Internal Audit
BSE Listings Requirements	Compliance reviews	BSE and Ernst & Young
Insurance due diligence	Independent risk reviews	Ernst & Young, independent actuary and reinsurers

RESPONSIBILITY STATEMENT AND REVIEW

The audit and risk committee and the board acknowledge their responsibility to ensure the integrity of this report. It has been reviewed by the audit and risk committee, the board, Company Secretary and statutory actuary.

The annual financial statements included in this integrated annual report have been audited by the independent auditor.

The directors are responsible for the preparation and fair presentation of the group's annual financial statements comprising the consolidated financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the period 1 January 2021 to 31 December 2021 and the notes to the consolidated annual financial statements, which include a summary of significant accounting policies and other explanatory notes. The annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board and the BSE Listings Requirements.

The directors are also responsible for such internal controls as they determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in the consolidated annual financial statements.

The board, after consultation with the audit and risk committee, concluded that this integrated annual report is presented materially in accordance with the <IR> Framework and approved it for publication on 24 May 2022.

Mahube Mpugwa
Acting Chairman

Catherine Lesetedi
Group Chief Executive Officer (CEO)

Kudakwashe Mukushi
BIHL Group Chief Financial Officer (CFO)

01 ABOUT BIHL

BIHL is a financial services group with a proud record of achievements. It has been listed on the BSE for 30 years.

ABOUT BIHL

BIHL Group is a leading financial services group listed on the BSE. We are a holding company for two subsidiaries.

BIHL GROUP

Botswana Life Insurance Limited
Botswana's leading life insurer with a market share estimated at over 71%. Botswana Life administers more than 300 000 policies and underwrites over P1,9 billion in recurring premium income.

Botswana Insurance Fund Management Limited
A pioneer in asset management managing in excess of P36 billion in assets across equity, fixed income, real estate, liquidity and alternative investments.

BIHL top shareholders

Sanlam	58,43%
Botswana Public Officers Pension Fund	14,72%
Motor Vehicle Accident Fund	3,84%
Other	23,01%

Associates

Letshego	28,05%
BIC	50,00%
FSG	37,62%
NICO	25,10%

BIHL further holds a stake in five associate companies:

- Letshego Holdings Limited (Letshego or LHL)
- Botswana Insurance Company Limited (BIC)
- Funeral Services Group (FSG)
- Nico Holdings PLC
- Aflife Holdings Zambia.

INVESTMENT CASE

- Key player in the Botswana financial markets
- Financial business with diverse revenue streams
- Strong group liquidity and balance sheet position
- High quality and competent management and staff
- Technical institutional memory embedded in the leadership team
- Track record of compelling product offering across Botswana
- Diverse and client-centric
- Strong partnerships and networks across different industries
- Responsible and efficient capital allocation
- Strong and trusted brand identity
- Satisfactory growth track record
- Innovative product development team

VISION

To be the leading client-centric, broad-based financial services group in markets in which we choose to operate.

MISSION

We engineer legacies for our clients and deliver exceptional returns for our shareholders through service excellence in wealth and insurance management.

CORE VALUES

- Collaboration
- Corporate citizenship
- High performance
- Agility and innovation
- Client-centricity

CORE BUSINESSES

- Life insurance
- Asset management
- Short-term insurance
- Other services

OUR PURPOSE

We are focused on our **purpose** of improving livelihoods. We have a clear strategy to achieve our **vision** and **mission** through our **strategic objectives**. We strive to meet these objectives by leveraging our strong **values**.

PURPOSE
To improve livelihoods

VISION
To be the financial services provider of choice for our customers and to deliver best-in-class returns for our shareholders

MISSION
We will achieve this though service excellence, providing innovative wealth and insurance products and living our stated core values every day

OUR STRATEGIC TARGETS		
1. Attain operating profit of P1,36 billion by 2023	**2.** Achieve a minimum return on group embedded value (RoGEV) of 14,5%	**3.** By 2023, 25% of all non-core processes will be digitised channels

KEY STRATEGIC GOALS		
1. Profitable and sustainable revenue growth	**2.** Cost optimisation	**3.** Superior client service

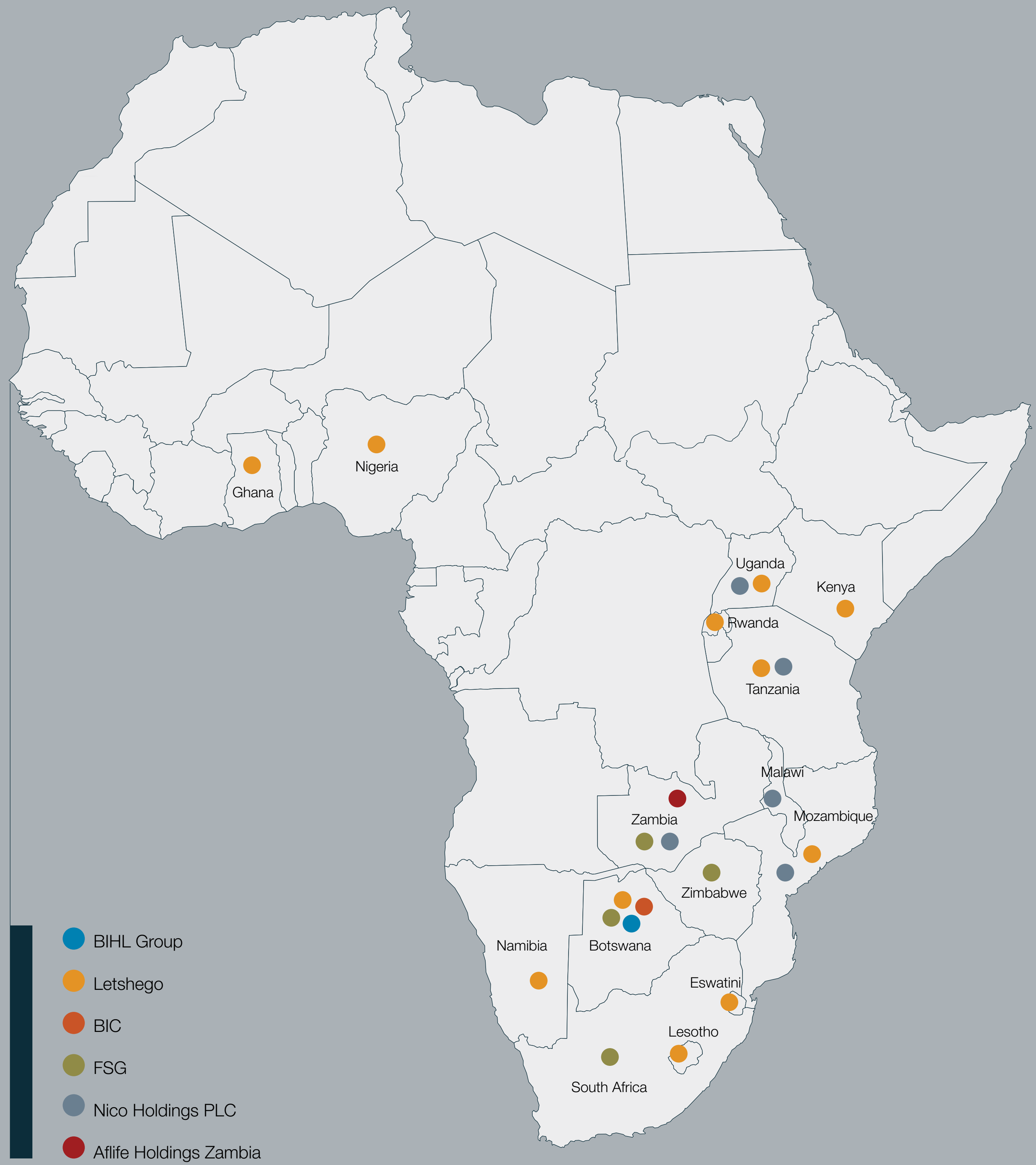
OUR STRATEGIC OBJECTIVES

CLIENT-CENTRICITY	INNOVATION AND TRANSFORMATION	EMPLOYEE VALUE PROPOSITION	COLLABORATION	COST OPTIMISATION	NEW GROWTH OPPORTUNITIES
Prioritising an exceptional and convenient client experience	Capitalise new leading-edge ideas for sustainable value – (RoGEV) future-proof the group	Improved (future-fit) employee competencies and culture	Driving synergistic value across the group	Ensure prudent spending and cost optimisation, while maximising business value	Pursue new business partnership and expansion opportunities

VALUES
Customer-centricity | Collaboration | Agility and innovation | High performance | Corporate governance

HOW AND WHERE WE OPERATE

Footprint



TIMELINE

2021
- Launched Botswana Life Retirement Annuity Fund and Fiduciary Services
- Establishment of the Innovation and Transformation Office (refer to page 21)
- Launched the Young Leaders Forum (refer to page 22)

2020
- Introduced more channels (reach and ease of doing business)
- Celebrated Sapphire Jubilee as the group turned 45

2019
- BIHL Trust launched mobile app solution #AppForChange
- Botswana Life launched Masika Otlhe funeral plan
- BIC launched new corporate identity and tagline 'Make Life Better'

2018
- Launched Bifm citizen share scheme (25,1% of the BIHL Group owned by employees who are citizens)
- Hosted the inaugural Global Financial Summit in Gaborone
- The Botswana Life board appoints new CEO
- Launched #AppForChange competition in association with Botswana Innovation Hub

2017
- Botswana Life launched first of its kind life cover product, Poelo Whole of Life

2016
- Acquired a 50% indirect stake in BIC

2015
- BIHL Group celebrated 40-year anniversary as an insurance provider in Botswana
- BIHL Group acquired a 25,1% stake in Nico Holdings PLC

2014
- Botswana Life launched a refreshed brand identity

2012
- The BIHL Group launched new corporate identity
- Completed Bifm Capital sale
- Launched BIHL Sure!

2010
- Launched the Rail Park Mall project in Gaborone with Botswana Railways
- Initiated construction of the Airport Junction Shopping Centre in Gaborone

2009
- Completed development of the new Southern African Development Community headquarters as one of the Public Private Partnership projects undertaken through Bifm

2008
- Launched Botswana Insurance Fund Management's (Bifm) first public-private partnership project

2007
- Approved the establishment of a community development trust

2006
- Botswana Life launched three new products – Mmoloki, Motlhokomedi and Mortgage Protector Plan

2004
- Bifm launched new corporate identity and definitive positioning statement

2003
- The launch of policies which were inclusive during the HIV and AIDS pandemic

1999
- Botswana Life launched insurance course at Botswana Accountancy College
- Botswana Life funded 15 of the first 25 students on the course

1993
- Acquired controlling stake in IGI Botswana Holdings Limited

1991
- Launched BIHL Group consisting of Botswana Life and Botswana General Insurance Limited
- Listed on the BSE

1975
- Company established

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OUR MARKET AND TRENDS

OUR RESPONSE TO COVID-19

Since COVID-19 was declared a global pandemic in March 2020, it has had a tremendous impact on governments, public health and economic growth.

In view of the severity of COVID-19 and its variants, the Government of Botswana continued to operate under a state of public emergency in conjunction with the response framework until 30 September 2021. The state of public emergency was lifted in response to a lower number of new infections and an improving vaccination rate. Botswana has one of the highest vaccination rates worldwide.

COVID-19 has impacted the BIHL Group through the loss of five of its employees in 2021. May their souls rest in peace. The group registered a total of 419 positive cases up to 31 December 2021.

As a matter of priority, BIHL put the health of its employees first when responding to the COVID-19 pandemic. The crisis management team, chaired by the group CEO, closely monitors the development of the virus and ensures a proactive process that will minimise the impact of the disease within the organisation. The group established response measures which primarily focused on management of the effects of the pandemic on various facets of the organisation.

The following were the driving tools to controlling the spread of COVID-19 internally:

- COVID-19 protocols and regulations
- Case management and contact tracing
- Pandemic policy
- Work-from-home and remote work policy
- Vaccination campaign
- Continuous communication with staff, clients and other stakeholders
- Heightened risk management
- Liquidity management improvements

Trends in the insurance and investment management sectors

CUSTOMERS AND PARTNERS

Our response for customers and partners included:

- Implementation of digital platforms which minimised branch visits and long queues at branches
- Annual Global Financial Summit replaced by a series of webinars.

EMPLOYEE WELL-BEING AND HEALTH AND SAFETY

At all times, our priority was the health and safety of our employees, and some of the following steps started in 2020 continued in 2021:

- Partnership with Kalafhi Medical Centre to assist with case management and contact tracing
- COVID-19 protocol compliance monitoring
- Hybrid remote working policy implemented and increased spending to equip employees to work from home
- Additional health and safety protocols
- Psychosocial support provided to employees
- Employee survey to understand employee morale and the impact of COVID-19.

Refer to the BIHL Group Chief Executive Officer's report on page 38 and our people on page 60 for more detail.

		Opportunities created
Digital marketing and a digital marketplace	Adults spend approximately 12% of a 24-hour day on their smartphone, making digital marketing key to interacting with customers.	Data-driven segmentation can help target customers more accurately at the point of certain life events to deliver the right message at the right time.
Leveraging the power of ecosystems	With industry borders blurring and new entrants and start-ups competing in the financial services industry, organisations need to expand their product and service offerings or form new partnerships to remain relevant.	Offering customers products or services that directly or indirectly relate to the primary offering can increase the probability of turning a lead into a sale. Forming new partnerships with companies outside of the financial services industry can greatly increase retention rates.
Shifting to a digital mindset	With a rapidly changing world, shifting the culture and behaviours of an organisation to be innovative, future-thinking and digitally savvy is paramount to identifying opportunities and becoming the digital advisors that customers need.	Compressing the role of the advisor is inevitable as customers move to self-directed research. Organisations need to reinvent the role of advisors, build digital leadership skills and instil a 'fail fast, fail cheap' culture in order to rapidly innovate.
Agile ways of work and digital workplace	Customers expect experiences that keep up with their needs. With the pace that trends, regulations and technology change, this requires flexibility from businesses. Similarly, employees are also asking for this kind of flexibility from their businesses to keep up with work trends, regulations and technologies.	Multi-disciplinary squads can innovate rapidly in response to changes happening inside and outside the organisation and push new offerings faster than traditional methods. Agile ways of working have been shown to boost both employee productivity and customer experience ratings.
Emerging technologies and InsurTech	Traditional financial companies are feeling threatened by how rapidly InsurTech can innovate to deliver on great customer experiences and competitors who can leverage big data.	Collaboration with open banking is key. By sharing insurance data with vendors, customers can still engage with trusted brands but behind a customised app. By gathering data insurers would not normally have access to, they can refine modelling, pricing and predict claims with more accuracy.
Becoming a data-driven organisation	Data is the new oil and insurers sit in reservoirs of client, medical and claims data. Many insurers are, however, struggling with how to turn these assets into business value that will affect the bottom line.	By putting data and analytics at the centre of the organisation and making sure that employees have access to the right data at the right time, they can make powerfully informed decisions.
Disruptive pricing models	Insurance is typically a grudge purchase and clients battle to navigate the complex relationship between short-term financial decisions and long-term consequences when choosing a coverage option.	Leverage innovative pricing models (such as dynamic pricing or 'pay as you go' payment options) to help customers save for the future while being able to navigate their current circumstances.
Digitalisation and personalisation of services	With the rise of self-service channels, virtualisation and omni-channel offerings, services and the experience provided to customers continue to radically shift with an ever-increasingly digital world. Customers are also expecting simultaneously fast, cheap and personalised service.	Human interaction will remain pivotal in the future, but advisors will be supported with data and artificial intelligence (AI) to deliver personalised insights with a human touch. Back-end processes will be automated, and AI will kick off processes based on predictions even before a human trigger.

02 HOW WE CREATE VALUE

As the only integrated financial services provider in Botswana, we seek to leverage group synergies and resources to continue providing value to our key stakeholders.

OUR MATERIAL MATTERS

Our executive management takes responsibility for managing the group's key material issues and we follow a structured approach to determine the relevant material issues that could affect our ability to create value. The material issues are presented to the board for endorsement.

Determining our material issues

Material matters are those matters of relevance we address and report on, considering their significance to both the business and our stakeholders and their potential to affect BIHL's ability to create value over the short, medium, and long term. This allows us to evolve our strategy and tailor our reporting to ensure it is aligned with the interests and needs of our audiences, as well as those of the group. We determine our material issues against the changing context of the business, stakeholder feedback and emerging issues. An external party was engaged to facilitate this process.

Our material issues are driven by our ambition to be the leading client-centric, broad-based financial services group in markets we choose to operate in, and are presented in the following table. We show which of our stakeholders are affected by these issues and how we have taken cognisance of these issues in determining our key strategic objectives.

Material issues	Strategic objectives	Strategic initiatives
Growth	• Client-centricity • Employee value proposition (EVP) • Collaboration • New growth opportunities • Innovation and transformation	• Retaining market-leading positions • Growth through deepening penetration of selected segments – Underserved markets – Product mix • Partnership with ecosystems and alternative distribution channels
Margins	• Cost optimisation	• Simplify customer journeys for improved interactions and retention – Improve client engagement, leveraging off strong net promoter score – Repricing to ensure profitable top-line growth – Fintechs and platforms for growth – Reducing costs and maintaining margins – Phase out products with negative margins • Product mix and diligent management of products requiring high capital allocation
Capital efficiency	• Optimised delivery	• Capital management and maximising returns for our portfolio • Maintain our dividend policy • Maintain strong governance while mitigating risks of increasing regulation

Our top risks are discussed in more detail on page 25.
Our key stakeholder relationships are outlined on page 28.
The strategic objectives are described on page 8.

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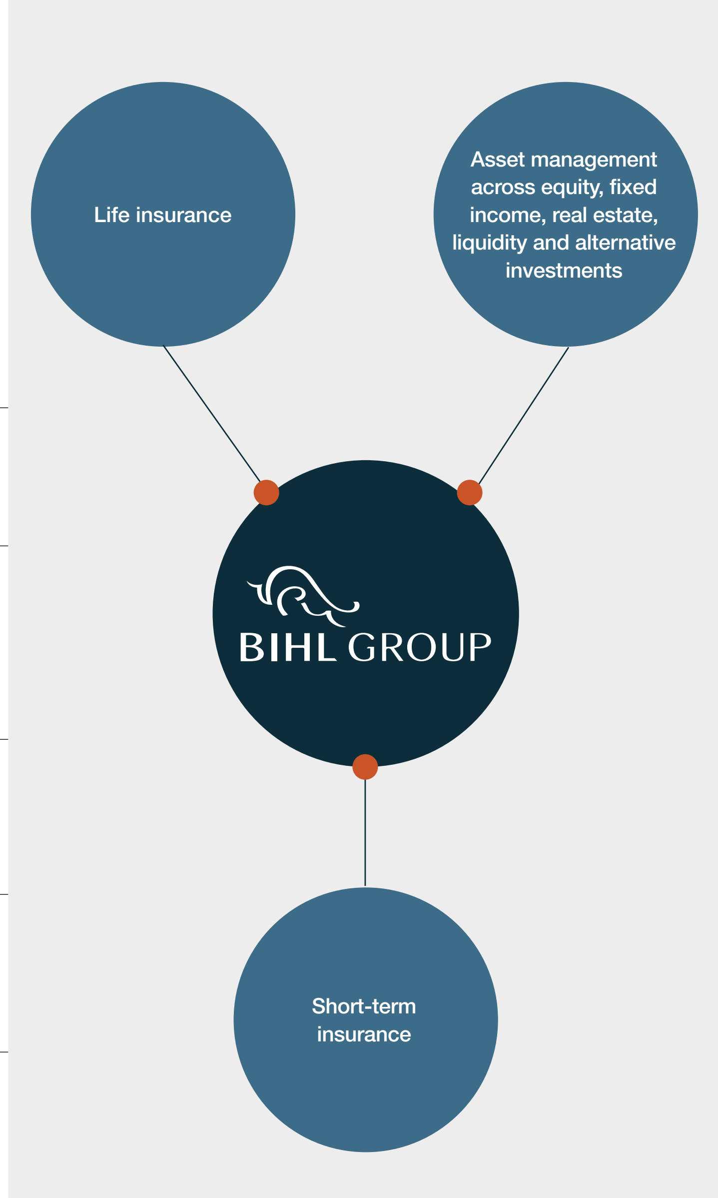
OUR VALUE-CREATING BUSINESS MODEL

The business model sets out how we create and preserve value. Refer to pages 20 to 22 for detail on how we realise our value creation through our strategy.

Business activities



Capital	Trade-offs made	Outputs	Outcomes
Financial capital Investment funding Debt management Cash flow and working capital management	The continued focus on the lives and livelihoods of our clients and staff had a negative short-term impact on our profits for the sake of our long-term sustainability. We focused on uninterrupted service to clients, which resulted in non-critical projects being put on hold. We chose to limit face-to-face interaction with clients, which may have negatively affected our current and future income. Our comprehensive customer support initiatives aimed at retention contributed to costs.	Well-capitalised operation – required capital for the group subsidiaries is covered 6,3 times	Delivering sustainable earnings and distribution growth Embedded value of **P5,33 billion** Return on group embedded value of **12%** Final dividend of **P200 million** net of tax AUM of **P36 billion** Net insurance premium income of **P3,1 billion** Recurring premium income of **P1,9 billion** Fee revenue of **P128 million** Value of new business: **P176 million**
Manufactured capital Infrastructure		Functional infrastructure with a large footprint	Owner-occupied property of **P127 million** Leasehold improvements of **P38 million**
Intellectual capital Skilled workforce with knowledge base Recognised brands Systems and procedures Digital transformation strategy		Life insurance and investment products for a broad range of society	**Six** life policies **Three** investment products **Five** funeral products **One** retirement annuity product
Human capital Depth of skills and experience Training and development		Skilled workforce	**382** employees (excluding fixed-term contracts) **407** employees (including fixed-term contracts) **880** financial advisors **P4,5 million** training spend
Social and relationship capital Engagement with stakeholders Client-centric – delight customers Corporate social investment (CSI) programme		BIHL Trust focused on education, public health, conservation of the environment and social upliftment	**P1,3 million** CSI spend **Five** social upliftment projects **Two** educational projects **Hundreds** of beneficiaries of the Trust
Natural capital Responsible use of resources		Responsible use of natural resources Low-impact industry CSI focus on conservation of the environment	*Refer to page 58 for use of resources.*

OUR STRATEGY

SUSTAINABLE GROWTH STRATEGY 2019 – 2023

In 2019, we implemented a five-year strategy to position the group for a strong and viable future. As the only integrated financial services provider in Botswana, we seek to leverage group synergies to continue providing value to our key stakeholders. Future growth opportunities exist in both optimised insurance and asset management penetration, as well as through growth into other services and markets.

Strategic pillar	Progress in 2021	Focus for 2022
Client-centricity	• Focus on segmented approach to selling; right product, right solution • Rapid rollout of new premium collection channels to improve access especially for the unbanked • Release version 2 of the customer portal at Botswana Life, which has more features to help clients self-service • Assist intermediaries with adoption of the sales platform • Focus on client retention across the board	• Direct channels (new and adaptation of existing) • Single view of the customer • Customer relationship management
Innovation and transformation	• Kick-off of the roadmap implementation • Five missions prioritised • Refer to 'A focus on our innovation and transformation pillar' on page 21	• Execution capability – agile practices • Digitalisation of key processes • Data analytics (insights and leads) – customer base leverage
Employee value proposition	• Training on future skills • Implement initiatives to foster a desired culture following results of the culture survey carried out in 2020 • Manage and reduce the risk of transmission of COVID-19 in the workplace while paying attention to impacts on staff morale	• E-learning portal • Agile culture • Leadership development
Collaboration	• Introduce data analytics to assist with better insights that inform product development	• Individual leads generation and referral • Develop agent cross-sell capabilities • Review product upskilling for institutional cross-sell • Strategic partnering
Cost optimisation		• Botswana Life cost optimisation • Long-term cost dashboards • Repricing schemes
New growth opportunities		• Bifm Unit Trust retail • Key distribution and collection partnerships

A FOCUS ON OUR INNOVATION AND TRANSFORMATION PILLAR

In developing our five-year strategy in 2018, we recognised that we need to **innovate intentionally and transform with the new digital world.** We established the BIHL Group Innovation and Transformation Office led by Teko Moumakwa. This digital hub is an extension of the group CEO's office and solidifies the group's commitment to creating a future-fit BIHL.

In the previous financial year, we embarked on a series of workshops to define what we wanted the BIHL Group of the future to look like. We defined our ambitions according to the three innovation horizons, which are:

Horizon 1, also called core innovation, which focuses on **doing things better**
Horizon 2, also called adjacent innovation, which focuses on **doing things differently**
Horizon 3, known as disruptive innovation, which focuses on **doing different things**

The first stage of the programme was broken down into two key streams whose objectives were to:

Define the desired culture for BIHL	that will support agile transformation.	This has been delivered, including a culture transformation plan; some of the activities in the plan are now underway.
Define and set up agile structures	to support the group's agile transformation.	The teams have been defined and are being resourced from business.
Build a data analytics platform	and perform cost-optimisation analysis at Botswana Life and provide focus areas for business to reduce costs.	The platform has been built and the analysis dashboard has been delivered to Botswana Life. Identified insights are being reviewed and discussed with business for inclusion and prioritisation.
Conduct capability assessment	of BIHL's information technology (IT) infrastructure.	This has been completed and recommendations have been shared. BIHL will consider cloud for future systems in the transformation journey.
Develop investment case	for the next phase of the programme for board approval.	The investment case was developed.

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OUR STRATEGY continued

OPTIMISATION MISSION

The mission was set up to harness the analysis and insights to drive cost-optimisation efforts at Botswana Life. The project has since identified cost-cutting opportunities, some of which have already been actioned. Cost-cutting efforts will continue throughout 2022. The project has also identified business optimisation opportunities which can further reduce costs, through a comprehensive business process review and business automation exercise, including resource rationalisation. Proposals from market-leading business process re-engineering consultants will be evaluated in 2022.

YOUNG LEADERS FORUM MISSION

The mission, driven by our youthful and energetic team drawn from our businesses, has been tasked with driving the proposed cultural shifts to a more agile, inclusive and innovative BIHL, as well as the adoption of digital solutions implemented across the group, so that business can realise the full benefit of the projects. We have identified and selected the team from business and have given them onboarding and training on agile methodology of problem definition, analysis and solutioning.

The mission is implementing an employee engagement platform across the group and developing a digital adoption strategy for key digital platforms for Botswana Life and Bifm.

KEY PROJECTS AND BENEFITS TRACKING

The group continues to provide project implementation and governance support to its subsidiaries through the Innovation and Transformation Office and has seen completion of most digitalisation initiatives, as well as other strategic projects. We will now focus on realising the benefits in this and future years to ensure the group sees the return on its investment.

OUR RISKS AND OPPORTUNITIES

OUR GOVERNANCE APPROACH TO MANAGING RISKS

The board is ultimately responsible for overseeing risk management. The audit and risk committee is mandated by the board to advise and assist with the design and implementation of BIHL's risk assurance framework and responsibilities. Therefore, the audit and risk committee takes responsibility for approving the risk appetite statement and level of risk tolerance for the group for recommendation to the board and monitoring the implementation of the group risk assurance framework and supporting policies.

A comprehensive and mature group risk assurance framework is in place, with appropriate risk escalation processes from business unit to group level. The group risk assurance framework is reviewed annually. BIHL's risk appetite statement is the key mechanism through which limits are set for material categories such as:

Type of risk	Type of risk
Strategic risk	The risk that the group's strategy is inappropriate or that the group is unable to implement its strategy.
Capital and solvency risks	Capital and solvency risks are the risks that there are insufficient reserves to provide for variations in actual future experience.
Market risk	The risk that the value of a financial instrument will fluctuate as a result of changes in the market.
Credit risk	The risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure.
Liquidity risk	The risk relating to the difficulty/inability to access/raise funds to meet commitments associated with financial instruments or policy contracts.
Insurance risk (life and general insurance)	Insurance risk relates to operations regulated under the Insurance Industry Act and which arise from the underwriting of insurance contracts in relation to the perils covered and the processes used in the conduct of business.
Operational risk	The risk that there could be a loss as a result of inadequate or failed internal processes, people or systems and external events.

Refer to note 24 to the annual financial statements for additional information on all of these risks.

Effective risk management is fundamental to the long-term viability of BIHL. The business continues to embrace a strong risk management culture. This ensures an appropriate balance between the diverse risks. BIHL's robust and transparent risk reporting processes enable stakeholders including the board and audit and risk committee to:

- gain an accurate, complete view of BIHL's risk profile
- make appropriate and strategic business decisions
- evaluate and understand the level and trend of material risk exposures and their impact.

This is achieved by establishing clear risk ownership at business and department level as well as creating an effective combined assurance partnership between the business, risk management, compliance, internal audit and external audit functions, thereby assuring the shareholders' interests.

A risk-focused culture is achieved through:

- Appropriate structures, policies, procedures and practices are in place to manage risks
- Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices
- The organisation's risks are managed in accordance with the foregoing.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The audit and risk committee adopted the operational risk management policy, which has the purpose of promoting and enhancing the effectiveness of operational risk management throughout BIHL. The policy specifically guides the implementation of operational risk management by providing principles to support and enable:

- an integrated operational risk management environment
- a culture of awareness of operational risks
- standard methodologies and techniques for the management of operational risk
- a consistent view of the operational risk profile across the BIHL Group
- a common risk language, and
- clear roles and responsibilities.

The policy consolidates all polices which govern different aspects of operational risk within the group.

OUR RISKS AND OPPORTUNITIES continued

APPROACH TO RISK MANAGEMENT

The board adopted the three lines of defence model for managing risks. The model defines the roles, responsibilities and accountabilities for managing, reporting and escalating risks and other matters throughout the group. It incorporates oversight, management and assurance of risk management, especially given the three independent views of risk.

This approach ensures that risk management is embedded in the culture and daily activities of business units and provides assurance to the board and the group executive committee that risks are managed effectively. It contributes to sustainable achievement of performance objectives by managing or mitigating adverse outcomes and reputational damage.

1ST LINE OF DEFENCE

- Group Chief Executive and group executive committee
- Risk-taking business units within the clusters
- **Roles and responsibilities (doing and recording)**
- *Delegated board authority to:*
  - Develop and implement strategy
  - Measure and manage performance
  - Implement the internal control and risk management framework within the agreed risk appetite.
- **Assurance: Management-based**

2ND LINE OF DEFENCE

- Risk management and compliance functions within the group
- **Roles and responsibilities (internal verification)**
- *Objective oversight of risks. Key activities include:*
  - Designing and deploying the overall risk management framework
  - Developing and monitoring policies and procedures
  - Monitoring adherence to the framework and strategy.
- **Assurance: Risk- and compliance-based**

3RD LINE OF DEFENCE

- BIHL board-mandated committees
  - Audit and risk committee
  - Actuarial committee
  - Human resource committee
- Internal and external audit
- **Roles and responsibilities (independent verification)**
  - Independent and objective assurance over the effectiveness of corporate standards and compliance
  - Assurance that the risk management process is functioning as designed
  - Identifies improvement opportunities.
- **Assurance: Independent-based**

TOP RISKS

The risks associated with the group's day-to-day operations inform the bottom-up approach to risk management. The maintenance of risk registers and reports in each area controls this process. Risk registers are aggregated and reviewed by the risk committees and risk forum. Significant and emerging risks are escalated to the group for consideration. The following are risks being faced by the business:

Rank	Risk	Description	Mitigating actions
1	**COVID-19 pandemic**	Botswana, just as all other countries, have been impacted by COVID-19 pandemic. The increase in COVID-19 cases has resulted in governments, including Botswana, introducing extreme measures to curb the spread of the disease. As at 31 December 2021, there were 222 053 confirmed cases in Botswana with 2 452 fatalities. The safety of clients and employees in the workplace is therefore threatened by the spread of COVID-19. The increase in fatalities negatively impacts the claims experience for the life business.	• Engaged with Government on policy development and implementation • Closely monitoring business impact and responding accordingly. Management has implemented a rapid response checklist to ensure thorough readiness of the business to deal with the impact of COVID-19 • Reconfigured the workplace to ensure safety of staff and clients
2	**Credit defaults**	The COVID-19 lockdown placed cash flow pressure on companies and state-owned enterprises, increasing the risk of credit defaults and requests for credit indulgences.	• Managing lapsing insurance polices • Increased credit monitoring and collections
3	**Cyber risk**	Loss of accuracy, confidentiality, availability and integrity of critical information, including exposure to cyber risk. This was heightened by COVID-19. The IT department is the backbone of BIHL's operating and business continuity management.	• Business continuity management policy is in place • Upgraded IT data centre to address business continuity configuration stability • Increased training focused on cyber awareness to reduce staff vulnerability
4	**IFRS 17 implementation**	IFRS 17 replaces IFRS 4 which will fundamentally change the accounting process by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard is effective for annual periods beginning on or after 1 January 2023.	• Close monitoring, reporting and use of dedicated resources to implement the project • Independent review by internal and external auditors • Robust change management plan • Oversight by project steering committee comprising key executives across the BIHL Group
5	**Regulation**	If regulatory changes and requirements are not implemented in a timely manner, it could increase the risk of non-compliance.	• Participated in industry and business workshops • Ensure compliance risk management through tracking regulatory changes and implementing new requirements

BIHL INTEGRATED ANNUAL REPORT 2021

ENGAGING WITH OUR STAKEHOLDERS

The board views engagement with our stakeholders as imperative for our sustainability and business strategy. We are committed to ensuring consistent, timeous and open communication with all stakeholders and regularly engage with various stakeholder groups. Feedback from these engagements is communicated to the board and this informs our key strategic decisions and the identification of our material issues.

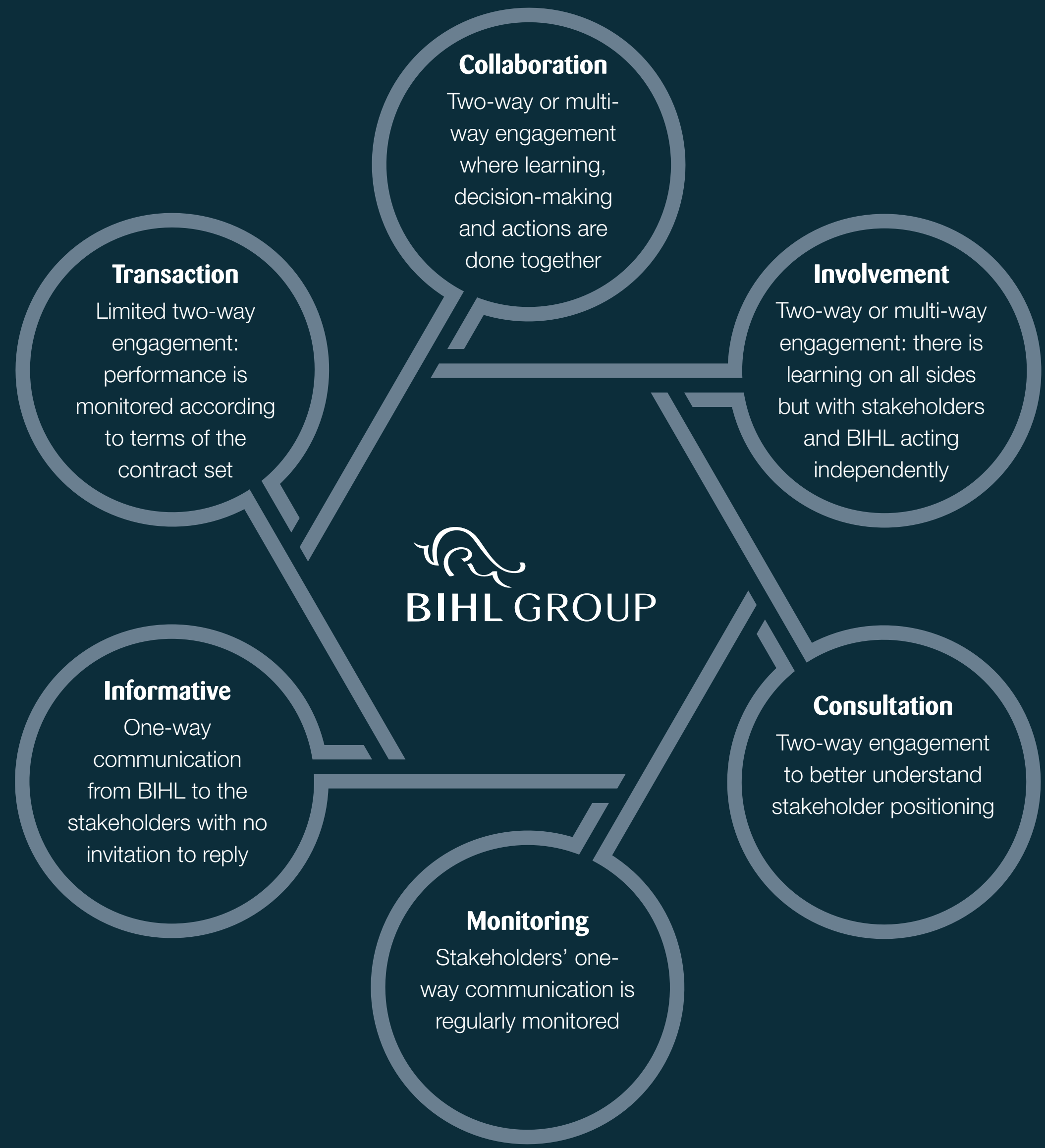
BIHL strives to ensure open and transparent engagement with all stakeholders to ensure continuous value addition and exchange. We consistently scan the environment and identify risks using various forums such as executive sales meetings, executive committee meetings and risk forums.

The omni-channel stakeholder communication approach leverages websites, regular newsletters, presentations, interaction with the media, one-on-one meetings and discussions, both formal and otherwise.

TYPES OF ENGAGEMENT

Clients, employees and investors are the most direct determinants of performance and are therefore afforded primacy.

Aligning expectations of employees and investors has been identified to yield multiplicative returns, as both segments gain from increased client satisfaction. However, trade-offs prevail.



BIHL INTEGRATED ANNUAL REPORT 2021

ENGAGING WITH OUR STAKEHOLDERS continued

Our key stakeholders and the issues that concern them are outlined below.

Stakeholders	Their expectations	How we engage	Value created
Clients	• Product and service quality • Price • Transparency • Trust	**Involve** • Face-to-face engagement forums with key clients • Road and radio shows **Consult** • Customer satisfaction survey **Inform** • Print and social media broadcasts geared towards product development and regulatory developments	Client satisfaction (retention and penetration) Brand value (brand recognition and brand image) Supporting economic value through communication of products and services Net promoter score
Employees	• Fulfilment (job satisfaction) • Career path (learning opportunities) • Staff engagement and involvement • Staff welfare • Remuneration, reward and recognition • Career progression • Employment security	**Inform** • Virtual meetings • CEO's virtual engagements • Internal communications • Reports and business updates **Involve** • CEO's virtual engagements • Regular engagement sessions • Townhall meetings • BIHL wellness programme **Consult** • Workshops and focus groups	Talent attraction and retention Increased employee productivity, creativity and innovation Skills development Engaged employees Brand ambassadors
Intermediaries and distribution partners	• Access to markets • Opportunities to sell • Career progression • Servicing clients • Skills development • Successful businesses	**Inform** • Virtual meetings **Involve** • Motivational talks **Collaborate** • Industry informational engagements • Structures: broker/agency forums • Relationship management	Increased productivity Competitive advantage Sustainable enterprises Brand value (brand recognition and brand image)
Investors and analysts	• Disclosures • Growth in shareholder value • Return on investment • Sustainability and business continuity	**Inform** • Investor relations and engagement plan • Group financial results presentation • Annual general meeting (AGM) **Involve** • Virtual one-on-one meetings • Face-to-face investor engagement **Monitor** • Analyst reporting	Increased investor confidence Brand value (brand recognition and brand image) Sustainability and business continuity

Stakeholders	Their expectations	How we engage	Value created
Communities	• Health and safety • Investment in corporate social responsibility (CSR) initiatives	**Inform** • Publicise the objectives of the Trust in print media and group financial results presentations **Collaborate** • Engage with community	Brand value (brand recognition and brand image) Reinforced social capital
Governments and regulatory bodies	• Disclosures • Compliance • Tax returns • Employment • Externalities	**Monitor** • Print media publications and reports from Government and other regulatory bodies **Involve** • Product development exploration • Policy development	Brand value (brand recognition and brand image)
Suppliers and vendors	• Assurance on payments and commitments • Citizen procurement policy • Equitable business opportunities	**Transact** • Ensure alignment to procurement and invoice payment turnaround times **Inform** • Regulatory and process-related policies	Brand value (brand recognition and brand image)
Trade associations/ affinity schemes	• Member benefits • Rewarding partnerships • Retention of members • Welfare of members • Financial well-being of members • Products • Timely service	**Involve and consult** • Webinars • Virtual meetings • Face-to-face engagement **Collaborate** • Strategy workshop	Client satisfaction (retention and penetration) Brand value (brand recognition and brand image) Supporting economic value through communication of products and services
Key accounts	• Enhanced offerings • Distribution, marketing and compliance support • Data analytics	**Involve and collaborate** • Webinars • Workshops • Face-to-face engagements • Bi-literal meetings **Inform** • Key account performance reports • Product and regulatory development	Client satisfaction (retention and penetration) Brand value (brand recognition and brand image)

Our stakeholder engagement is further enhanced through our membership of industry associations such as Life Insurance Marketing and Research Association, Business Botswana, Insurance Institute of Botswana, Botswana Life Underwriters Association, Institute of Actuaries, BICA and the Institute of Chartered Auditors.

Value created
Financial: returns related to revenue
Emotional: returns that promote organisational trust
Functional: returns that offer flexibility to increased productivity

BIHL INTEGRATED ANNUAL REPORT 2021

03 PERFORMANCE AND OUTLOOK

The group's results were influenced by the COVID-19 pandemic, which continues to have an economic impact.

BIHL INTEGRATED ANNUAL REPORT 2021

FIVE-YEAR REVIEW

	2021 P'000	2020 P'000	2019 P'000	2018 P'000	2017 P'000
GROUP CONSOLIDATED INCOME STATEMENT					
Continuing operations					
Net insurance premium income	**3 084 928**	2 879 625	2 597 852	2 349 017	2 320 046
Gross premium income – recurring	**1 880 903**	1 635 388	1 510 609	1 353 288	1 250 581
– single	**1 258 320**	1 301 267	1 140 404	1 044 081	1 100 679
Insurance premiums ceded to reinsurers	**(54 295)**	(57 030)	(53 161)	(48 352)	(31 214)
Revenue from contracts with customers	**127 760**	108 935	98 414	107 021	103 075
Investment income	**74 149**	67 761	208 569	142 698	658 193
Interest income using the effective interest rate	**4 467**	6 838	11 165	11 065	–
Other interest income	**1 050 615**	658 991	797 700	615 050	–
Profit on sale of subsidiary	**–**	1 396	3 472	–	12 993
Net (loss)/gains on financial assets held at fair value through profit or loss	**(955 699)**	(436 803)	55 998	(50 762)	(55 241)
Total revenue	**3 386 220**	3 286 743	3 773 170	3 174 089	3 039 066
Net insurance and investment contract benefits and claims	**(2 277 887)**	(2 058 818)	(2 622 131)	(2 145 572)	(2 027 157)
Policyholder benefits paid	**(2 330 426)**	(1 649 831)	(1 614 748)	(1 487 101)	(1 374 527)
Change in liabilities under investment contracts	**(349 195)**	(3 912)	(421 258)	(191 599)	(64 932)
Change in liabilities under insurance contracts	**401 734**	(405 075)	(586 125)	(466 872)	(587 698)
Expenses	**(937 043)**	(819 020)	(755 980)	(619 231)	(660 458)
Selling expenses	**(516 554)**	(424 194)	(397 221)	(310 895)	(336 295)
Administration expenses	**(417 915)**	(374 909)	(353 675)	(308 336)	(324 163)
Finance cost on leases (IFRS 16)	**(543)**	(861)	(1 110)	–	–
Impairment losses	**(2 031)**	(19 056)	(3 974)	–	–
Profit before share of profit of associates and joint ventures	**171 290**	408 905	395 059	409 286	351 451
Share of profit of associates and joint ventures	**305 333**	257 268	229 001	52 871	72 927
Impairment of associates	**–**	–	(86 768)	–	–
Profit before tax from continuing operations	**476 623**	666 173	537 292	462 157	424 378
Tax expense	**(83 886)**	(128 664)	(98 919)	(95 694)	(76 092)
Profit from continuing operations	**392 737**	537 509	438 373	366 463	348 286
Discontinued operations					
Profit/(loss) for the year from discontinued operations	**–**	–	2 191	4 069	1 041
Profit for the year	**392 737**	537 509	440 564	370 532	349 327
Earnings per share (thebe) – basic	**140**	193	158	135	127
Earnings per share (thebe) for continuing operations	**140**	193	157	133	126
Gross dividends per share (thebe)	**71**	122	114	143	157
Weighted average number of shares in issue ('000)	**277 665**	276 023	274 533	274 945	277 919

	2021 P'000	2020 P'000	2019 P'000	2018 P'000	2017 P'000
GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Property and equipment	**183 232**	179 261	154 562	155 320	155 350
Intangible assets	**107 076**	99 089	104 226	99 454	92 273
Right-of-use assets	**8 112**	15 514	20 767	–	–
Investments	**17 410 914**	16 258 980	15 799 698	15 091 233	14 789 197
Insurance and other receivables	**280 725**	284 199	252 291	304 585	295 667
Non-current assets held for sale	**–**	–	–	47 688	54 222
Cash deposits and similar securities	**137 418**	239 637	162 095	112 844	184 254
Total assets	**18 127 477**	17 076 680	16 493 639	15 811 124	15 570 963
Ordinary shareholders' equity	**3 332 263**	2 984 617	2 903 345	2 818 565	2 941 557
Non-controlling interest	**18 728**	25 228	23 597	22 008	16 823
Policyholder liabilities	**10 446 306**	10 847 636	10 444 102	12 521 188	12 218 341
– Insurance contracts	**10 446 306**	10 847 636	10 444 102	9 859 345	9 388 540
– Investment contracts	**–**	–	–	2 661 843	2 829 801
External investors in consolidated funds	**3 635 183**	2 519 241	2 667 763	–	–
Deferred tax liability	**23 780**	19 521	22 161	13 695	9 702
Derivatives instrument	**42 366**	2 400	5 810	–	–
Liabilities classified as held for sale	**–**	–	–	21 795	15 682
Lease liability	**9 234**	16 858	21 431	–	–
Trade and other payables	**621 617**	661 179	405 430	413 873	368 858
Total equity and liabilities	**18 127 477**	17 076 680	16 493 639	15 811 124	15 570 963
GROUP STATEMENT OF CASH FLOWS					
Cash generated from/(utilised in) operating activities	**1 477 887**	1 292 305	763 865	557 053	1 206 418
Interest received	**396 011**	40 341	133 179	97 323	88 360
Dividend received from equity investments	**28 172**	14 947	108 547	–	–
Dividend received from associates and joint ventures	**147 304**	105 969	73 247	–	–
Interest expense on leases (IFRS 16)	**(543)**	(861)	(1 110)	–	–
Tax paid	**(83 833)**	(70 666)	(98 139)	(84 464)	(90 934)
Dividends (paid)/received	**(194 756)**	(428 080)	(370 861)	(186 543)	(155 985)
Cash flow from operating activities	**1 770 239**	953 955	608 728	383 369	1 047 859
Cash flow (utilised in)/from investing activities	**(1 867 020)**	(873 276)	(555 501)	(454 779)	(1 682 885)
Net cash flows (utilised in)/generated from financing activities	**(5 438)**	(4 573)	(3 976)	–	–
Net increase/(decrease) in cash and cash equivalents	**(102 219)**	76 106	49 251	(71 410)	(635 026)
Cash and cash equivalents at the beginning of the year	**239 637**	162 095	112 844	184 254	819 280
Cash and cash equivalents at the end of the year	**137 418**	238 201	162 095	112 844	184 254

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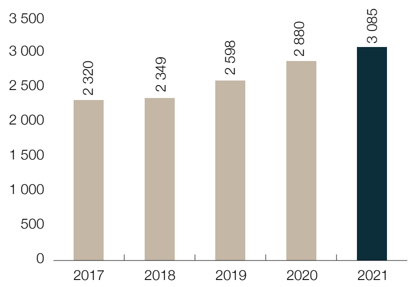
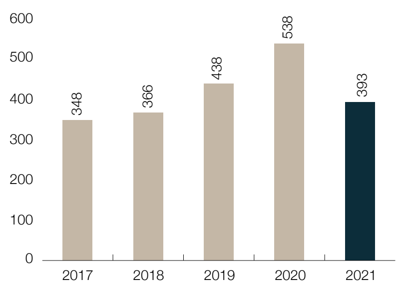
FIVE-YEAR REVIEW continued

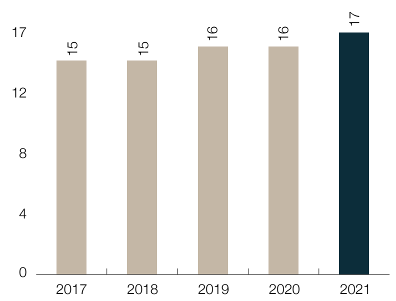
PREMIUM INCOME
(P'million)



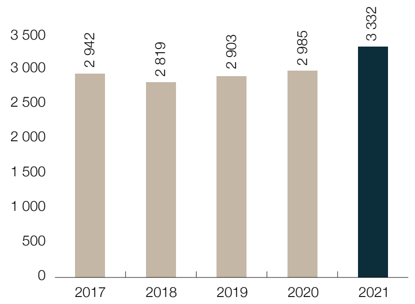
PROFIT AFTER TAX
(P'million)



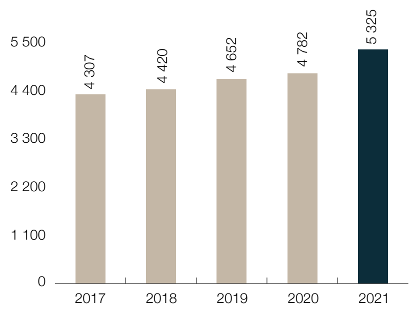
INVESTMENTS
(P'billion)



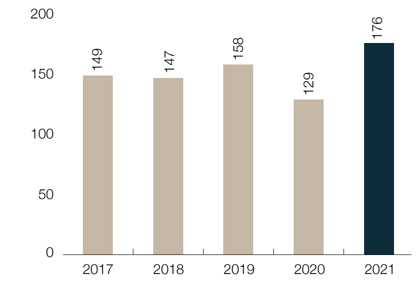
SHAREHOLDERS' EQUITY
(P'000)



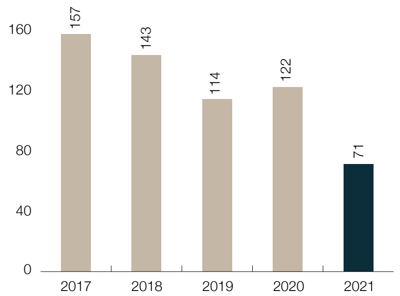
EMBEDDED VALUE
(P'billion)



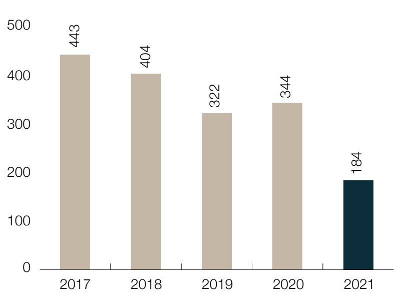
VALUE OF NEW BUSINESS
(P'000)



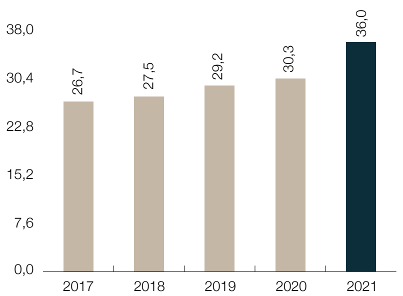
DIVIDENDS PER SHARE
(thebe)



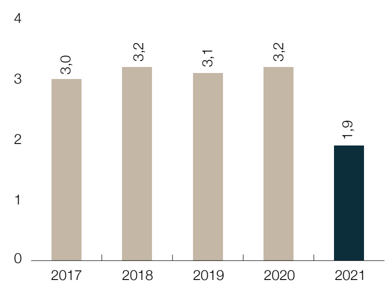
DIVIDENDS PAID
(P'million)



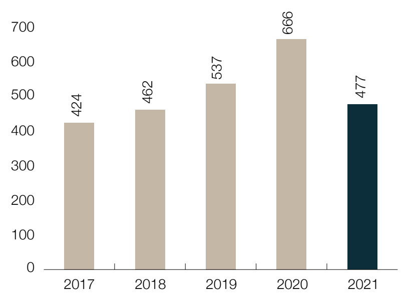
ASSETS UNDER MANAGEMENT
(P'billion)



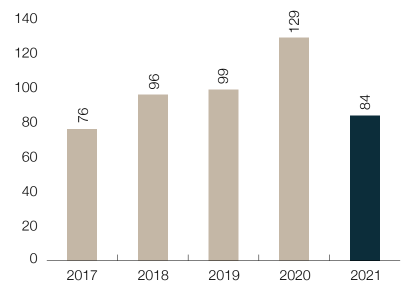
BIHL Trust
(P'million)



PROFIT BEFORE TAX
(P'million)



TAX PAID
(P'million)



BIHL INTEGRATED ANNUAL REPORT 2021

CHAIRMAN'S MESSAGE

Economic data prints also confirmed that the local economy sharply recovered and grew by a whopping **36%** year-on-year in the second quarter of 2021.

MR MAHUBE MPUGWA
BIHL Acting Chairman

OUR MACROECONOMIC ENVIRONMENT IN LIGHT OF COVID-19

From an international market perspective, the year started and ended broadly in a similar fashion. The optimism surrounding global economic recovery and vaccination success contrasted with policy error fears and the threat of new COVID-19 variants.

In the first half of the year, successful vaccine rollouts paved the way for the reopening of developed economies against the threat of the new Delta variant which was first identified in India in December 2020. Data by and large confirmed a robust pickup in global economic activity, with accompanying inflationary pressures that stoked market fears for an earlier than expected monetary policy tightening. Overall, the level of optimism drove commodity and risky asset prices higher in the first half of the year.

In the second half of the year, although strong corporate earnings initially supported markets, this was overshadowed by near-term concerns around the spread of the new Delta variant, supply chain disruptions and ongoing uncertainty in emerging markets, primarily in China. Most developed countries, having fully vaccinated around 75% of their populations, were able to lift many restrictions on travel and other activities. In November, the discovery of a new COVID-19 variant in South Africa, named Omicron, prompted most developed economies to implement travel restrictions. Overall, optimism surrounding a strong corporate earnings season and ongoing global economic recovery overshadowed the threat of the new variant, resulting in a strong rally for developed market equities and industrial metals in the second half.

In Botswana, sentiments remained somewhat downbeat in the first half of the year. Rising COVID-19 infections continued to restrict freedom of movement and hampered business activity. In general, economic data released reflected sluggish business activity with credit extension slowing on the back of weak credit uptake by firms. Botswana headline inflation breached the upper target band (6%) of the Bank of Botswana largely due to the increase in value added taxation to 14% and the rise in administered prices that came into effect on 1 April 2021. The local equity market reflected the international market optimism and turned positive in the second quarter, led by financial and consumer stocks.

In the second half of the year, optimism returned to the local market as declining COVID-19 infections and a successful vaccination drive allowed the Government to declare the end of the state of public emergency. Economic data also confirmed that the local economy sharply recovered and grew by a whopping 36% (year-on-year) in the second quarter of 2021. Headline inflation rose further and closed the year at 8,7% largely attributable to the secondary effects of the increase in administered prices, mainly fuel and transport. The Bank of Botswana maintained its accommodative stance in support of the local economy by keeping the policy rate unchanged at 3,75%. Over the full-year period, the Botswana Pula depreciated by 7,9% against the US Dollar while it remained flat against the South African Rand.

Subsequent to the year-end, the invasion of Ukraine by Russia and the resultant economic sanctions imposed on Russia have caused further turmoil to supply chains and the markets, especially for oil and fuel.

THE BOARD

Our previous Chairman, Batsho Dambe-Groth, resigned effective 31 December 2021. On behalf of the board and all other stakeholders, I thank her for her valuable contribution to the group over a 12-year period. She will be missed.

At the same time, we welcome Robert Dommisse to the board and look forward to the insights that he will bring.

GRATITUDE

I express my gratitude to the board for their support and insight in the past year. I thank the CEO, her management team and all staff for their ongoing dedication and hard work under trying circumstances.

Mahube Mpugwa
BIHL Acting Chairman

BIHL INTEGRATED ANNUAL REPORT 2021

CHIEF EXECUTIVE OFFICER'S REPORT

MS CATHERINE LESETEDI
BIHL Group Chief Executive Officer

OUR OVERALL PERFORMANCE

Operating profit for the group significantly declined by 54% for the year ended 31 December 2021 compared to the prior year. Operating profit for the life business declined by 62% on account of excess mortality experienced during the year. A significant part of the increase in mortality was due to COVID-19 related deaths. The asset management business operating profit for the year is 12% higher than the prior year owing to an improved AUM position from the previous year leading to higher fee income earned. Share of profits of associates and joint ventures increased by 19% with the main associates FSG, Letshego and BIC reporting significantly better results compared to last year. The Nico Group performance was adversely impacted by COVID-19 claims.

> Botswana Life delivered a solid set of results in the 2021 financial year, this despite the COVID-19 burdened economic climate.

Net recurring premium income grew by **16%**

Botswana Life

Resilience in response to COVID-19	Net insurance premium income increased by **7%** to **P3,1 billion** (2020: P2,9 billion)	Market share: **71%** (2020: 69%)	Recurring premium income increased by **16%** to **P1,83 billion** (2020: P1,58 billion)

Bifm

27% profit growth	Launched **two new** retail funds	AUM grew by **19%** to **P36 billion** (2020: P30,3 billion)

OPERATIONAL PERFORMANCE

Botswana Life delivered a solid set of results in the 2021 financial year, this despite the COVID-19 burdened economic climate. Income for the year grew despite the headwinds largely attributable to the COVID-19 pandemic and slower than expected economic recovery. Total premium income grew by 7% from P2,9 billion in 2020 to P3,1 billion. Net recurring premium income grew 16% from P1,58 billion to P1,83 billion. This line represents a sustainable source of profits in the long term. Total new business grew 42% with most income lines showing a recovery from 2020. The value of new business, which represents the present value of future profits from new business premiums written during the period, grew by 37% compared to the prior year due to higher sales volumes for some retail and corporate business portfolios and a shift towards a more profitable mix of new business.

Operating profit declined by 65% year-on-year from P379 million to P134 million. The major contributor to the decline in operating profit was the unprecedented amount of COVID-19 claims which impacted all risk product lines. The net insurance claims and benefits paid increased by 41% in total compared to the prior year.

During 2021, management continued with cost-optimisation initiatives to manage the cost base within optimal levels underpinned by process automation and a shift to online channels. Digitalisation was fast tracked, realising operational online streaming of sales distribution processes (end-to-end), customer self-service and collaborative payment platforms complementing existing traditional channels. In line with the SeSarona five-year strategy, the business launched an exciting new offering, Botswana Life Fiduciary Services, which will assist clients with their estate planning needs.

The Bifm Group yielded a strong set of results for the financial year ended 31 December 2021. Operating profit increased by 12% compared to the prior year. This good performance is attributable to the growth in AUM of 18% reflecting the goodwill that the company continues to build with its clients. The Zambia business, on the other hand, realised a decline in operating profit compared to the prior year mainly due to a decline in performance fees income compared to the prior year and the depreciation of the Zambian Kwacha against the Botswana Pula.

Total AUM increased by 19% to close the year at P36 billion, including Zambia's at P5,2 billion and Bifm Unit Trust at P1,7 billion.

BIHL INTEGRATED ANNUAL REPORT 2021

CHIEF EXECUTIVE OFFICER'S REPORT continued

OUTLOOK AND PROSPECTS

There has been an increase in claims due to general excess mortality and COVID-19 related claims during the year and we have seen an improvement in mortality since the vaccine rollouts, albeit still elevated above pre-COVID-19 levels. The economic impact of the pandemic remains high and the general household's disposable income remains under pressure. The situation is made worse by the rising cost of living, virus mutations and the aftermath of COVID-19 including increased morbidity risk. Management will be implementing appropriate actions to mitigate these risks to ensure the group's value proposition remains sound going into the future. The risk mitigating actions include driving profitable top-line growth to ensure the business can navigate the current pandemic while delivering much-needed support to our policyholders.

The group continues in its efforts to safeguard the safety and well-being of employees and clients from the risks of transmission, by a combination of actions, including ramping up the use of digital channels to limit face-to-face interactions, among other things. We will continue to explore ways to limit unnecessary face-to-face interaction between staff and our clients while ensuring that the quality of our service remains uncompromised.

The focus on collaboration within the group has once again yielded pleasing results and management will continue to drive internal synergies as well as mutually beneficial partnerships with key clients.

APPRECIATION

We would like to thank all our clients, brokers, agents and other stakeholders for the ongoing partnerships and support and look forward to serving them in the future.

I would like to thank all our employees and our management teams for their dedication, hard work and commitment during a challenging year which required all of us to adapt to a new environment.

My appreciation also to the board for their wise counsel and support. I also thank all our customers and advisors for their loyal support.

Catherine Lesetedi
BIHL Group Chief Executive Officer

> "The focus on collaboration within the group has once again yielded pleasing results and management will continue to drive internal synergies as well as mutually beneficial partnerships with key clients."

GROUP CHIEF FINANCIAL OFFICER'S REPORT

Our asset management business had a return on group equity **17%** above the target

Our Letshego associate had a **19,6%** return on equity value

The Nico Group return on group equity totalled **26,8%** (2020: 18%)

FSG had a return on equity value at **64,9%**

MR KUDAKWASHE MUKUSHI

BIHL Group Chief Financial Officer

Given what has been happening with the COVID-19 pandemic this year, the group had a very resilient performance.

The year 2021 saw unprecedented COVID-19 infections in Botswana and a significant rise in mortality rates resulting from the increased infections. The BIHL Group, through the life insurance company, Botswana Life, had to come through for its clients by ensuring that all valid claims emanating from COVID-19 related deaths were paid. The claims paid during the year 2021 increased by 46% (P770 million increase) over the 2020 claims and this put significant strain and demand on both operations and cash flow. Despite this, the group has shown that it is very resilient as it came out even stronger in terms of capital cover and was able to declare a good final dividend from the 2021 profits.

We measure ourselves on the basis of return on group equity value which totalled 12%, marginally below our target of 14,5%, as a result of the increased mortality rates which saw the life company posting a return on embedded value of 4,4% compared to a target of 17,7%. Given the challenging environment, the return shows the strength of the diversified group as all the other companies performed above their required return.

The return on embedded value for our core subsidiary, Botswana Life, totalled 4,4% against a target of 17,7%. While the value of new business grew year-on-year by 37%, the strengthening of mortality assumptions as well as the negative mortality experience variances meant that the growth in value of in-force policies was subdued because of the reduced embedded value earnings of P112 million (2020: P316 million). The value of new business was positively impacted by increased business volumes coming from the retail products and higher margins on the annuity line.

The total premium income for the life business grew by 7% year-on-year with the recurring premium line showing a significantly higher growth of 15% compared to 2021. The growth in recurring premium speaks to future profitability because such policies are normally sticky. The new business product mix also trended towards the higher-margin risk products.

Our asset management business did very well with a return on group equity value of 17% against a target of 15,5% on the back of increased AUM and receiving new mandates. The main driver for this performance was Bifm Botswana whose operating profit before tax grew by 28% year-on-year.

Our largest associate, Letshego, had a good year with a return on equity value of 19,6% driven by increased loans and advances which grew by 11%. In addition, the company had a favourable year in terms of loan impairments, as they reversed previously impaired exposures in Kenya, which resulted in a net reversal of impairments amounting to P31 million. Our valuation of Letshego has remained steady hence no impairments were done during the period under review.

Nico Group contributed considerably to the overall profit position of the group. Return on group equity value totalled 26,8% compared to 18% achieved in the prior year. The NBS Bank has emerged as a significant contributor to the group's performance with significantly improved performances since its recapitalisation exercise in 2018. The group presents good opportunities for growing shareholder value especially if the profits generated by the bank continue to grow consistently.

FSG posted a stellar set of results with a return on equity value of 64,9%. The company saw increased funerals impacting revenue from the sale of goods and services positively. The insurance book continued to contribute steadily to the company's performance.

BIC, of which we own 50%, had a return on group equity value of 15,7%, however, higher than the 14% posted last year. The company performed well with the gross written premium growing by 31% compared to the prior year. BIC regained its position as number one in the general insurance space in Botswana.

Key financial statistics

	2021 P'000	2020 P'000
Net income	**3 212 688**	2 988 560
Other income and expense	**173 532**	298 183
Administrative expenses	**417 915**	374 909
Profit from investments	**282 664**	236 128
Participation in profits of joint ventures	**22 669**	21 140
Finance income/(expense)	**543**	861
Current and deferred income taxes	**83 886**	128 664
Net profit after taxes	**392 737**	537 509
Exclusions for earnings	**125 130**	70 212
Distributable earnings	**517 867**	467 297

PROFITABILITY

The group's profits attributable to shareholders declined by 27% to P393 million. The decline in profits is mainly a result of operating profit from subsidiaries having declined by 56% to P171 million (2020: P393 million).

Botswana Life, which is the largest subsidiary, saw a decline of 65% in operating profit mainly due to a 41% increase in claims and benefits paid – the higher claims and benefits emanated from excess mortality caused by COVID-19. The impact of high claims was felt across all risk products except annuity business on which the excess mortality has a positive impact on profits. The healthy 15% growth in recurring premiums is a good sign for the company's future profits.

Bifm's Botswana operation performed well with operating profit before tax showing 28% growth year-on-year from P47 million in the previous year to P60 million. This result is off the back of administration fees that grew 18% year-on-year and costs that were kept in check. Zambia is still straddled with economic challenges though we saw some recovery in some of the macroeconomic indicators during the year. The Aflife Group continued to post steady profits despite the tough economic environment.

Letshego had a good year which saw a 15% increase in profit after tax. The performance was driven by growth in interest income and good collection experience which saw declining impairments and increased recoveries on the loan book. The effective tax rate declined to 37% (2020: 40%) and this boosted the profit after tax increase.

BIHL INTEGRATED ANNUAL REPORT 2021

GROUP CHIEF FINANCIAL OFFICER'S REPORT continued

FSG had an excellent year which saw revenues growing by 49% compared to the prior year. The growth in revenue was mainly driven by the undertaking arm of the business because of increased mortality resulting from COVID-19. Profit after tax grew by 64% year-on-year.

BIC's gross written premiums grew by 31% as the company won some key accounts during the year. Net premiums grew by 14% because a significant portion of the new business is reinsured. Underwriting profit grew by 7% year-on-year and combined ratios were in line with expectation though slightly higher than the prior year.

EXPENSES

Selling expenses continued to grow in line with increased new business numbers that we saw during the year. The investment in a safe work environment as well as capacitating our staff to work from home saw administration expenses continuing an upward trajectory. As always, we continue to seek the most efficient ways to run the businesses across the group, hence the costs are always on our radar.

PROFIT AFTER TAX

Profit after tax declined by 27% year-on-year with Botswana Life seeing a 65% decline in its operating profit. The share of associates profit after tax grew by 19% with Letshego, FSG and BIC contributing to this growth in profits.

We had a strong and resilient financial year with group equity value increasing by P544 million from P4,78 billion to P5,33 billion which speaks to the value embedded in our operations.

Analysis of earnings

	2021 P'000	2020 P'000	Change %
Operating profit	**171 290**	392 989	(56)
Investment income on shareholders' assets	**25 666**	33 317	(23)
Core earnings	**196 956**	426 306	(54)
Profit on sale of a subsidiary	**–**	1 396	(100)
Share of profit of associates and joint ventures net of tax	**305 333**	257 268	19
Investment surpluses/(losses) on shareholder assets	**(30 381)**	(24 307)	25
Profit before tax	**471 908**	660 663	(29)
Tax	**(83 886)**	(128 664)	(35)
Profit after tax	**388 022**	531 999	(27)
Minority shareholders' interest	**4 715**	5 510	(14)
Total profit	**392 737**	537 509	(27)

Headline earnings and distributable income reconciliation

	2021 P'000	2020 P'000	Change %
Headline earnings	**392 737**	537 509	(27)
Exclusions for earnings	**125 130**	(70 212)	178
Distributable earnings	**517 867**	467 297	11

VALUE OF NEW LIFE BUSINESS

The value of new business increased by 37% to P176 million compared to the prior year. New business volumes for the individual life and group funeral portfolios were higher compared to the prior year and also written on healthy margins. The annuity portfolio also performed very well with better value of new business margins notwithstanding the lower volumes compared to the prior year.

Value of new business and new business margin

The value of new business represents the value of projected after tax profits at the point of sale arising from new policies sold during a financial period, accumulated to the end of the period at the risk discount rate. The values adjusted for the cost of capital required to support the new business.

	2021 P'000	2020 P'000
Value of new covered business	**121 203**	142 687
Present value of new business premiums	**3 079 094**	2 253 099
New covered business margin	**3,94%**	6,33%

"Selling expenses continued to grow in line with increased new business numbers that we saw during the year."

EMBEDDED VALUE

The group's embedded value increased to P5,33 billion from the P4,78 billion reported as at 31 December 2020. The embedded value allows for P184 million dividends paid during the year.

Embedded value earnings

	2021 P'000	2020 P'000
Embedded value as at 31 December 2021	**5 325 249**	4 781 823
Embedded value at the beginning of the period	**4 781 823**	4 651 546
Embedded value earnings	**573 102**	603 960
Change in embedded value	**543 425**	130 278
Movement in capital	**(153 864)**	49 480
Dividends paid	**183 541**	424 202
Return on embedded value	**12,0%**	13,0%

CAPITAL MANAGEMENT AND SOLVENCY

The group remains well positioned in terms of capital management and solvency. This was taken into consideration by the board when resolving to declare a final dividend. The board has confidence in the group's ability to maintain dividends at this level while ensuring that its capital position remains solid and aligned with future capital requirements while sustaining healthy levels of return on group equity value.

CAPITAL COVER

We have a very solid base to work from with a well-capitalised group that is future ready. We have 6,8 times the required capital cover, up from 6,3 times last year despite the capital requirement increasing from P460 million to P480 million.

CLAIMS AND BENEFITS

This year, we paid close to P2,5 billion in claims, P770 million more than last year. We exist to pay claims; this is our purpose and we honour claims and pay as and when they fall due. The strength of our balance sheet came through this year because the group came out even stronger with higher required capital cover ratios and was able to declare a cash dividend to shareholders.

APPRECIATION

I would like to take this opportunity to thank the dedicated group of individuals who have worked diligently and efficiently to produce the numbers that appear in this integrated annual report.

Kudakwashe Mukushi
BIHL Group Chief Financial Officer

GROUP EMBEDDED VALUE

For the year ended 31 December 2021

1. DEFINITION OF EMBEDDED VALUE

Embedded value represents an estimate of the economic value of the company excluding the value attributable to future new business and the value attributable to minority interests. Embedded value comprises:

- the value of the shareholders' net assets
- fair value adjustments, and
- the value of in-force business.

The value of in-force business is the present value of future after-tax profits arising from business in force at the valuation date, discounted at the risk discount rate and adjusted for the cost of capital required to support the business.

The value of new business represents the value of projected after-tax profits at the point of sale arising from new policies sold during the year to 31 December 2021, accumulated to the end of the period at the risk discount rate. The value is adjusted for the cost of capital required to support the new business.

	31 Dec 2021 P'000	31 Dec 2020 P'000
2. EMBEDDED VALUE RESULTS		
Shareholders' net assets excluding goodwill	3 280 688	2 910 930
Fair value adjustments	–	–
	3 280 688	2 910 930
Value of in-force business	2 044 561	1 870 893
Value before cost of capital	1 852 166	1 812 147
Fair value adjustments (refer to section 4)	401 086	235 748
Cost of capital	(208 691)	(177 002)
Embedded value	5 325 249	4 781 823
Embedded value per share (Pula)	18,90	16,93
3. EMBEDDED VALUE EARNINGS		
The embedded value earnings are derived as follows:		
Embedded value at the end of the year	5 325 249	4 781 823
Embedded value at the beginning of the year	4 781 823	4 651 545
Change in embedded value	543 425	130 278
Movement in capital and opening net asset value reinstatement	(153 864)	49 480
Dividends and new capital	183 541	424 202
Embedded value earnings	573 102	603 960
Return on embedded value (%)	12,0	13,0
These earnings can be analysed as follows:		
3.1 Embedded value from covered business		
Expected return on life business in force	186 048	175 575
Value of new business	189 889	138 551
Value at point of sale	175 818	128 803
Expected return to the end of the year	14 071	9 748
Operating experience variances	(152 170)	55 727
Mortality/morbidity	(226 735)	57 338
Persistency	33 958	(1 941)
Expenses	24 547	(13 392)
Other	16 060	13 722

	31 Dec 2021 P'000	31 Dec 2020 P'000
3. EMBEDDED VALUE EARNINGS continued		
Return on embedded value continued		
Operating assumption changes	(118 990)	(6 322)
Mortality/morbidity	(99 509)	84 481
Persistency	(27 757)	(5 433)
Expenses	(15 054)	(88 721)
Other	23 330	3 351
Embedded value earnings from operations	104 777	363 531
Investment variances	(20 523)	26 571
Economic assumption changes	27 256	(74 300)
Interest and inflation	(6 382)	(11 458)
Risk discount rate	33 638	(62 842)
Total embedded value earnings from covered business	111 510	315 802
3.2 Return on non-covered business	296 256	235 512
Investment returns	(43)	(16 146)
Net profit non-life operations	296 299	251 658
3.3 Change in fair value and other adjustment		
Change in shareholders' fund adjustments	165 337	52 646
Investment surpluses on treasury shares	(3 091)	3 425
Movement in present value of holding company expenses	(3 114)	(5 240)
Movement in fair value of incentive scheme shares	(3 049)	(7 242)
Movement in other net worth adjustments	174 591	61 703
Embedded value earnings	573 103	603 960
4. FAIR VALUE ADJUSTMENTS		
Staff share scheme	(36 950)	(33 836)
Non-life operations write-up to fair value	556 620	382 029
Group holding expenses	(158 392)	(155 344)
Reversal of cross-holding adjustment	39 808	42 899
Total	401 086	235 748

GROUP EMBEDDED VALUE continued

For the year ended 31 December 2021

5. VALUE OF NEW BUSINESS

The value of new business represents the value of projected after-tax profits at the point of sale arising from new policies sold during the year to 31 December 2021, accumulated to the end of the year at the risk discount rate. The value is adjusted for the cost of capital required to support the new business.

	31 Dec 2021 P'000	31 Dec 2020 P'000
Value of new business at the end of the year	**189 888**	138 551
Value at point of sale after cost of capital	**175 818**	128 803
Value at point of sale before cost of capital	**188 221**	139 438
Recurring premium	**110 540**	78 742
Single premium	**77 681**	60 696
Cost of capital at point of sale	**(12 403)**	(10 635)
Expected return to the end of the year	**14 071**	9 748

6. SENSITIVITY TO THE RISK DISCOUNT RATE

The risk discount rate appropriate to an investor will vary depending on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of the BIHL Group. The sensitivity of the embedded value to the risk discount rate is set out below.

	Base values	Sensitivity scenarios	
Risk discount rate	**10,3% P'000**	**1% reduction P'000**	**1% increase P'000**
Shareholders' net assets and fair value adjustments, excluding goodwill	3 280 688	3 280 688	3 280 688
Value of in-force business	2 044 561	2 163 583	1 937 945
Value before cost of capital	1 852 166	1 947 838	1 765 977
Fair value adjustments	401 086	401 086	401 086
Cost of capital	(208 691)	(185 341)	(229 118)
Embedded value	5 325 249	5 444 271	5 218 633
Value of one year's new business at valuation date	175 818	188 795	164 037
Value before cost of capital	188 221	200 182	177 517
Cost of capital	(12 403)	(11 387)	(13 480)

7. ASSUMPTIONS

The assumptions used in the calculation of the embedded value are the same best estimate assumptions used for the financial soundness valuation. The main assumptions used are as follows:

	31 Dec 2021 %	31 Dec 2020 %
7.1 Economic assumptions		
Best estimate economic assumptions are the same as assumed in the financial soundness valuation as shown in the annual financial statements. The main assumptions (% per annum) used are as follows:		
Risk discount rate	**10,30**	11,00
Overall investment return (before taxation)	**8,58**	8,58
Expense inflation rate	**3,80**	4,50

7.2 Mortality rates

The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the company, the most recent conducted on 30 November 2021.

7.3 Expenses

A 3,8% expense escalation per annum was assumed going forward (2020: 4,5%).

7.4 Premium escalations

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on new business written during the period to 31 December 2021.

7.5 Persistency/surrender basis

The assumptions for lapse and surrender rates are based on the results of experience investigations conducted on 30 November 2021 by the company.

7.6 Tax

Allowance was made for the current life office taxation basis, including capital gains tax.

7.7 Mix of assets backing the capital adequacy requirement

	31 Dec 2021 %	31 Dec 2020 %
Asset class		
Property	**50**	50
Cash	**50**	50
Total	**100**	100

7.8 Other assumptions

The embedded value per share does not include an allowance for the future cost of the share option scheme. Where shares have not yet been issued, the number of shares used to calculate the embedded value per share will be increased as and when these options are granted. Granting share options will therefore influence the embedded value per share in future.

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GROUP EMBEDDED VALUE continued

For the year ended 31 December 2021

8. SENSITIVITIES

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the financial soundness valuation has been included in the value of in-force business. For each sensitivity illustrated, all other assumptions have been left unchanged.

	Value of in-force P'000	Cost of capital over base capital P'000	Value before cost of capital Total P'000	% change
Embedded value as at 31 December 2021				
Base	**2 044 561**	**208 691**	**2 253 252**	
Discontinuance rates decrease by 10%	**2 134 501**	**188 949**	**2 323 450**	**3,1**
Future expenses decrease by 10%	**2 095 261**	**208 691**	**2 303 952**	**2,3**
Mortality experience decreases by 5%	**2 162 863**	**90 388**	**2 253 252**	**0,0**
Investment returns decrease by 1%	**2 107 120**	**213 072**	**2 320 192**	**3,0**
Risk discount rate decreases by 1%	**2 163 582**	**185 341**	**2 348 924**	**4,2**
Risk discount rate increases by 1%	**1 937 945**	**229 118**	**2 167 063**	**(3,8)**
Embedded value as at 31 December 2020				
Base	1 870 894	177 002	2 047 895	
Discontinuance rates decrease by 10%	1 934 996	171 709	2 106 704	2,9
Future expenses decrease by 10%	1 936 660	177 002	2 113 662	3,2
Mortality experience decreases by 5%	1 949 382	100 516	2 049 898	0,1
Investment returns decrease by 1%	1 930 196	179 315	2 109 511	3,0
Risk discount rate decreases by 1%	1 976 890	155 439	2 132 329	4,1
Risk discount rate increases by 1%	1 768 124	194 945	1 963 069	(4,1)

	Value of new business P'000	Cost of capital P'000	Value before cost of capital P'000	% change
Value of one year's new business as at 31 December 2021				
Base	**175 818**	**12 403**	**188 221**	
Discontinuance rates decrease by 10%	**83 202**	**10 847**	**94 049**	**(50,0)**
Future expenses decrease by 10%	**77 361**	**12 403**	**89 764**	**(52,3)**
Acquisition costs decrease by 10%	**71 359**	**12 403**	**83 762**	**(55,5)**
Mortality experience decreases by 5%	**316 862**	**–**	**316 862**	**68,3**
Investment returns decrease by 1%	**72 606**	**12 664**	**85 270**	**(54,7)**
Risk discount rate decreases by 1%	**188 794**	**11 377**	**200 171**	**6,3**
Risk discount rate increases by 1%	**164 038**	**13 468**	**177 505**	**(5,7)**
Value of one year's new business as at 31 December 2020				
Base	128 803	10 635	139 437	
Discontinuance rates decrease by 10%	140 513	11 576	152 089	9,1
Future expenses decrease by 10%	136 635	11 437	148 072	6,2
Acquisition costs decrease by 10%	134 819	11 437	146 256	4,9
Mortality experience decreases by 5%	143 298	11 634	154 932	11,1
Investment returns decrease by 1%	139 240	11 437	150 677	8,1
Risk discount rate decreases by 1%	134 710	10 211	144 922	3,9
Risk discount rate increases by 1%	122 733	12 564	135 297	(3,0)

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REPORT OF THE INDEPENDENT ACTUARY

The results presented in this integrated annual report are based on the requirements of the Companies Act, which uses the basis set out below, referred to as the published basis. For reporting under the Botswana Insurance Act, the results are prepared according to Botswana Insurance Prudential Regulations, referred to as the prescribed basis. As at 31 December 2021, the assets and liabilities under the two approaches are the same.

	31 Dec 2021 P'000	31 Dec 2020 P'000
Statement of actuarial values of assets and liabilities		
Total assets	**13 665 698**	13 799 194
Current liabilities and deferred tax	**797 325**	818 895
Net assets	**12 868 373**	12 980 299
Actuarial value of policy liabilities	**10 849 176**	10 849 176
Excess of assets over liabilities	**2 420 932**	2 131 123
Capital adequacy requirement	**241 818**	362 110
Capital adequacy requirement cover	**10,01**	5,89
Analysis of change in excess of assets over liabilities		
Excess assets as at the beginning of the reporting period as previously reported	**2 131 123**	2 029 637
Excess assets as at the end of the reporting period	**2 420 932**	2 131 123
Change in excess assets over the reporting period	**289 809**	101 486
This change in the excess assets is due to the following:		
Total investment return on shareholders' funds	**22 744**	5 823
Change in valuation methods or assumptions	**(20 395)**	(18 593)
Operating profits before tax	**157 003**	397 459
Taxation	**(56 229)**	(97 520)
Ordinary shareholders' surplus for the period	**103 123**	287 169
Share of profit from associates	**225 332**	180 701
Changes in reserves of associates	**104 380**	(44 418)
Dividends and other capital movements	**(143 025)**	(321 967)
Total change in excess assets	**289 809**	101 486

CERTIFICATION OF FINANCIAL POSITION ON PRESCRIBED BASIS

Changes in valuation methods or assumptions of assets and liabilities

Changes in basis and methodology had the effect of increasing the total value of policyholder liabilities by P20,4 million as at 31 December 2021 (31 December 2020: increased by P18,6 million). The impact of valuation assumption and methodology changes on policyholder liabilities are summarised below.

	31 Dec 2021 P'million	31 Dec 2020 P'million
Assumptions and model change		
Mortality	**39,0**	(4,5)
Lapses	**7,6**	(0,4)
Expenses	**7,7**	19,7
Economic	**9,9**	4,1
Other	**(43,8)**	(0,2)
Total	**20,4**	18,6

Valuation methods and assumptions

The valuation was performed using the gross valuation method for insurance contracts and for investment contracts with participation in profits on a discretionary basis as per Non-Bank Financial Institutions Regulatory Authority (NBFIRA) IPR1L – Prescribed Valuation Method for Long-term Insurance and IFRS 4. No contracts are classified as investment contracts and valued under IFRS 9 *Financial Instruments* as all our investment contracts offer the policyholder the option to add a risk rider in the future and are therefore life insurance contracts.

Instruments: Recognition and measurement

The result of the valuation methods and assumptions is that profits for insurance contracts and for investment contracts with participation in profits on a discretionary basis are released appropriately over the term of each policy to avoid the premature recognition of profits that may give rise to losses in later years.

Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other. A gross premium valuation gives a statement of the financial position of a life assurance company, according to a realistic or best estimate set of assumptions regarding future investment returns, bonus rates, expenses, persistency, mortality and other factors that may impact the financial position of the company. Assumptions are based on past experience and anticipated future trends. A provision has been made for an expected future increase in lapse experience because of the continued expected negative impact of COVID-19 on household income. The liability calculations also make allowance for the reasonable benefit expectations of policyholders, which may exceed the minimum contractual obligations of the company.

Liability valuation methods and assumptions

The actuarial value of the policy liabilities is determined using the method as described in Botswana's Insurance Industry Prudential Rule IPR1L issued by the NBFIRA. Assets are valued at fair value as described in the accounting policy for investments. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne.

In the valuation of liabilities, provision is made for:

- the best estimate of future experience
- the compulsory margins prescribed in IPR1L
- discretionary margins determined to release profits to shareholders consistent with policy design and company policy.

The value of policy liabilities as at 31 December 2021 exceeds the minimum requirements in terms of IPR1L.

The application of guidance is described below in the context of the company's major product classifications.

BEST ESTIMATE OF FUTURE EXPERIENCE

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from the medium- to long-term inflation assumption, provided by an independent economist, and appropriate risk gaps for different asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses and taxation at current tax rates is also considered.
- Unit expenses are based on the greater of the current year expenses and next year's budgeted expenses and escalated at estimated expense inflation rates per annum. The allocation of initial and renewal expenses is based on functional cost analyses.
- Assumptions regarding future mortality, morbidity and disability rates are consistent with the company's recent experience or expected future experience if this would result in a higher liability. Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates because of AIDS and for expected improvements in mortality rates in the case of annuity business. The company experienced significant claims as a result of excess mortality due to the COVID-19 pandemic. Mortality assumptions were adjusted to reflect the expected impact of excess mortality as a result of the COVID-19 pandemic.
- Persistency assumptions regarding lapse, surrender and paid-up rates are consistent with the company's recent experience or expected future experience if this would result in a higher liability.

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REPORT OF THE INDEPENDENT ACTUARY continued

For the market-related portion of the unbundled business (e.g. those where a portion of the premium is allocated to an accumulation account) the market-related liability was taken as the market value of the units notionally credited to the policies. The non-market-related portion of the liability was calculated as the present value of future charges required for risk benefits and renewal expenses (the 'Pula' reserves). For calculating the Pula reserves, the discount rates as supplied below were used.

Appropriate reserves for the unexpired risk portion and for claims incurred but not reported were held for group life and credit life risk premium benefits. The unexpired premium reserve assumes that premiums are earned uniformly for the term of the policy and the reserve is subject to a minimum of the surrender value on the policy. These reserves are calculated using standard actuarial methods and assume that current claims reporting experience is an indicator of future experience.

Liabilities for life and term annuities were valued on a discounted cash flow basis at interest rates based on the bond yield curve at the valuation date.

Where policyholders participate on a discretionary basis in the proceeds of the business, their reasonable benefit expectations have been interpreted as their share in the funds accumulated to them as a group over their in-force lifetime. To achieve a steady build up via bonus declarations, it is necessary to apply some smoothing of investment returns experienced by these funds. For this purpose, a bonus stabilisation reserve is held that represents the difference between the funds set aside and the value of policy liabilities based on declared bonuses, ensuring that excess investment returns are held back to provide for future payment of policy benefits. It is possible in difficult investment times for the bonus stabilisation reserves to be negative. No bonus stabilisation reserve for any class of business was more negative than -7,5% of corresponding liabilities at the valuation date.

For reversionary bonus policies, a gross premium valuation was done. Future bonuses were provided for at the latest declared reversionary bonus rates and at final bonus rates supported by the assumed investment return of 8,06% per annum (2020: 8,58%). The economic basis methodology was changed to be market consistent, and a risk-free yield curve is used as a base to discount liabilities. Bonus stabilisation reserves were held to equate the liabilities to the market/fair value of the corresponding assets.

In the case of policies for which the bonuses are stabilised, the liabilities are equal to the balances of the investment accounts plus corresponding bonus stabilisation reserves. Bonus stabilisation reserves held equate the liabilities to the market value of the corresponding assets.

Where relevant, liabilities include provisions to meet maturity, mortality and disability guarantees and for losses in respect of potential lapses and surrenders.

The significant discretionary margins held on individual life products are as follows:

- Margin of 15% on surrender rates for Mompati product (2020: 15%)
- Additional reserves are created to ensure that no policy is treated as an asset. No other discretionary margins are held on individual life products.

For annuities, discretionary reserves are created through a methodology approved by the actuarial committee and the statutory actuary. An explicit discretionary reserve of P387,8 million (2020: P354,9 million) was held at the end of the current period. A more detailed description of the individual elements of the basis follows below.

Economic parameters

The best estimate assumptions for the major investment parameters are based on a risk-free yield curve. Fixed gaps are added to the reference rate on the yield curve to determine the investment return assumptions for the different asset classes. The estimate for future expected Botswana inflation is set by deducting a fixed gap from the yield curve.

The assumptions quoted below are before the allowance for compulsory and discretionary margins and tax.

	2021 %	2020 %
Gilt return	**6,8**	7,5
Equity return	**10,3**	11,0
Property return	**7,8**	8,5
Cash return	**5,8**	6,5
Average return	**7,7**	8,4
Expense inflation	**3,8**	4,5

Bonus rates

Bonus rates on smoothed bonus policies have been assumed at a self-supporting rate.

POLICY DECREMENTS

The assumptions (before adding margins) for future surrender, lapse, disability payment termination, mortality, medical claims and morbidity rates were consistent with the company's recent experience. Provisions have also been made for the expected occurrence of AIDS-related claims. The most recent lapse investigation was done as at the end of October 2021. The most recent mortality investigations for annuity and the individual life retail book were done in November 2021.

EXPENSES

Provision for expenses (before adding margins) starts at a level consistent with the greater of current experience and next year's budgets and allows for inflation of 3,8% (2020: 4,5%) escalation per annum.

Valuation basis of policy liabilities for investment contracts without discretionary participation features

In the calculation of liabilities for investment contracts that provide investment management services, e.g. market-related investment contracts, the account balance has been held as the value of the liability. Either a negative Pula reserve or a deferred acquisition cost asset is also held for these contracts.

Valuation of assets

The assets (including the excess of assets over liabilities) are valued at fair value, as per the accounting policies in the annual financial statements. Goodwill has been excluded from the value of the assets.

Prescribed capital target (PCT)

The PCT is the minimum level of capital that is necessary to provide for more extreme adverse deviations in future experience than those assumed in the calculation of policy liabilities. The PCT has been calculated on two bases in accordance with NBFIRA's IPR3L – PCT for Long-term Insurers with the maximum of the two bases being used.

For Botswana Life, the maximum capital target is on the terminal capital target basis.

The ratio of accumulated surplus to PCT of P241,8 million (December 2020: P362,1 million) under the prescribed basis is 10,01 times (December 2020: 5,89 times).

I hereby certify that:

- The valuation of the liabilities of Botswana Life as at 31 December 2021, the results of which are summarised above, has been conducted in accordance with the Botswana Insurance Industry Act (Chapter 46:01), the Botswana Insurance Industry Prudential Rule IPR1L – Prescribed Valuation Method for Long-term Insurance Liabilities and IPR2L – Prescribed Valuation Method and Admissibility Restrictions for Long-term Insurance Assets.
- This valuation report has been produced in accordance with Botswana Insurance Prudential Rule LR3 – Valuator's Annual Report.
- The company was financially sound as at the valuation date and, in my opinion, is likely to remain financially sound for the foreseeable future.

Edwin Splinter
Statutory actuary
Fellow of the Actuarial Society of South Africa

2 March 2022

BIHL INTEGRATED ANNUAL REPORT 2021

04 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

We are committed to the highest standards of corporate citizenship and healthy, sustainable long-term relationships with all our stakeholders.

OUR APPROACH TOWARDS CLIMATE CHANGE

ENVIRONMENT

The group has a low environmental footprint, but we are nevertheless committed to lowering our environmental impact by educating our staff and continuously implementing actions to reduce our consumption. As such, we actively track water, electricity and fuel usage.

BIHL GROUP	P30 217	P69 821	P14 677
Bifm	P23 823	P149 863	P16 747
BIC Botswana Insurance Company	P66 100	P263 215	P4 556
Botswana Life	P191 862	P1 172 927	P536 000

BIHL supports the Paris Agreement goal to reduce global carbon emissions to limit average global temperature rise to well below two degrees Celsius. In doing so, the board has committed to addressing climate risk at the highest level to gain a better understanding of potential exposure to risks, gauge their impact on the business and identify meaningful mitigation responses.

We believe that a sustainable approach is not only good for the environment but makes good business sense. We recognise the role we have to play. We acknowledge the increasing risks related to a changing climate and the demand from investors to know how we are responding. We are committed to aligning our climate risk assessments and disclosures with the TCFD guidelines and commence this process with this statement, demonstrating the priority and importance we place on understanding and responding to the challenges presented by a changing climate.

The Task Force on Climate-related Financial Disclosures

The TCFD was created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to stakeholders. Increasing the amount of reliable information on financial institutions' exposure to climate-related risks and opportunities will strengthen the stability of the financial system, contribute to greater understanding of climate risks and facilitate financing the transition to a more stable and sustainable economy.

Our TCFD statement is based on recommended disclosures under the four key pillars of the TCFD guidelines.

Governance	Strategy	Risk management	Metrics and targets
BIHL is committed to the highest standards of corporate governance and recognise that an effective corporate governance culture is critical to the long-term performance of the business. The board is responsible for overseeing the management of BIHL and providing strategic direction. The board established committees to assist it in the execution of its functions. More information on BIHL's corporate governance is available on page 70. The board is committed to addressing climate risk at the highest level, to gain a better understanding of potential impacts to the business and identify and deliver meaningful responses.	Our strategy is designed to actively respond to the current and projected impacts of climate change on our business and to meet increasing demand from investors for disclosure on our approach. Initially, we will focus on undertaking detailed analysis of both the physical and transition climate change risks posed to our business. BIHL completes an annual risk profiling process to identify its material business risks. Results are reported to the audit and risk committee and the board and published in the integrated annual report (refer to page 23). Our approach to managing climate risks is incorporated into BIHL's risk management framework including our investment management activities. Our responses and initiatives are strategic and based on long-term outcomes. These involve both mitigating identified risks and capitalising on business opportunities associated with using renewable energy, providing on-site energy solutions and achieving carbon neutral operations.	BIHL has a robust and comprehensive risk management framework in place. As with our broader ESG priorities, climate risks will increasingly be integrated into our risk management programme and responsible investment structure. The risk management framework includes a clear disclosure strategy. The results of our climate-related assessments and progress with associated targets will be included in our climate disclosures – including voluntary reporting and the ESG and climate-related benchmarks in which we participate. Our approach to defining and managing climate risks has evolved over time. We are considering a scenario-based climate risk assessment to identify and assess our climate-related risks and opportunities, and we support using scenario analysis to improve consistency and transparency across our investment sector.	BIHL has disclosed its ESG performance consistently in its previous integrated annual reports, using it as its primary platform to reach its stakeholders. The extent of our disclosure has broadened over time. Going forward, we will gather and disclose such information on metrics and targets as our minority shareholding in and the abilities of our investees allow. We will explore information and targets regarding renewable and other energy use, greenhouse gas, carbon and other emissions as well as green building ratings.

OUR PEOPLE

BIHL adopted a new people management strategy to support the group's five-year strategy. In adapting to the ever-changing business landscape, the strategy recognises and commits to the following:

1. EVP – a brand promise to existing and potential staff regarding the standard to expect and live in supporting their growth
2. The evolution of human resources, acknowledging that the discipline continues to adapt to be an agile strategic partner
3. The digital transformation agenda; embracing and promoting this new culture to all staff as a smart way of working that enhances productivity
4. COVID-19; by providing the capability; to manage the pandemic in the workplace and ensuring health and safety of staff and clients
5. 'Strengthening the Core', focusing on the group strategy through these initiatives:
   - Embedding the performance management system to create a high-performance culture
   - Talent development and succession to strengthen the succession bench
   - Implementing the EVP.

The Young Leaders Forum is one of the initiatives under the digital transformation programme designed to provide a platform for young talent to assist the business with innovative solutions for current challenges. Through their mission-led teams, they are addressing the issues below.

Culture transformation – an employee engagement and recognition platform, instilling an agile culture as well as employee experience and culture metrics monitoring.

The people management department has partnered and is working closely with this team to implement an online platform named 'Kudos' which will foster an innovative and collaborative environment and contribute to work/life balance while recognising impactful contributions.

Digital channels adoption – they propose improvements in monitoring the framework, process optimisation, prioritisation for digitalisation and customer experience monitoring.

Employee safety and well-being remains a priority and the group crisis management team continues to monitor and respond to the management of the pandemic as well as aligning proactive responses to both Government protocols and pronouncements. The following are in place:

- A campaign to get staff vaccinated and partnering with a service provider to administer the process
- COVID-19 emergency response and home support for staff
- Counselling for COVID-19 related issues through people management and an outsourced provider for psychosocial support.

A Safety, Health and Environmental Officer has been engaged to regularly monitor and ensure compliance across all offices and branches.

CORPORATE SOCIAL RESPONSIBILITY

> "CSI is a vital part of the group's identity and we have a proud history of creating, maintaining and supporting developmental, social and environmental projects. As a group, we support local foundations and institutions by donating money, items or volunteering in the local community."

The BIHL Trust has undertaken and contributed to many projects over the past 15 years. The Trust has four key focus areas that help us ensure more targeted and sustainable impact, namely education, public health, conservation of the environment and social upliftment.

There have been no amendments to our CSI approach during the year and the strategic direction of the Trust was outlined in the 2019 integrated annual report. This focused approach will enable us to target our efforts at projects that align more closely with the group's overall sustainability strategy, and the bulk of our funds are directed at projects with longer-term sustainable outcomes.

BIHL TRUST

The BIHL Group of companies have long contributed to deserving causes within the communities in which they operate. The establishment of the BIHL Trust in 2007 formalised and streamlined the group's CSR activities. As a group, BIHL contributes 1% of its profit after tax every year to the Trust. Since inception, the BIHL Trust has ploughed back over P33 million to communities in Botswana.

The BIHL Trust had a challenging year due to COVID-19, as the pandemic, for the biggest part of the year, hindered the execution of the new strategic pillars. The Trust could not fully pursue its strategic direction as planned for the first half of the year due to the pandemic but was able to bed down significant logistical elements with execution being done in the latter part of 2021. The year was mostly spent engaging with strategic partners, whom we believe will assist us in executing the strategy. The Trust aims to strike a balance between our long-term focus areas and immediate smaller projects within the communities in which we serve and we are fully cognisant of our responsibilities.

Our major challenge, as sponsors and supporters of upliftment projects, is identifying the projects that align with real sustainable development. While the majority of projects that have been supported by the Trust over the past few years have met our expectations, there were some that did not deliver the results we expected. The Trust has put structures in place to enable the use of limited resources sparingly and identifying funding opportunities. We are exploring ways to work smarter with our project partners and collaborators to avoid delays in project execution as far as possible, particularly where these may stand to affect our ability to deliver sustainable impact.

Botswana Life and Bifm contributed a combined total of P1 852 648 during the year, which was significantly lower than the prior year of P3 187 758 due to the impact of the COVID-19 pandemic on the company's performance. These contributions are based on 1% post-profit tax of the business performance.

BIHL Trust UNICEF Peer Education Programme	Maru-a-Pula School OVC Fund	Girls Excelling in Maths and Science	Financial Literacy Programme	BIHL Trust National Writing Competition
Amount: **P476 000**	Amount: **P250 000**	Amount: **P187 000**	Amount: **P160 000**	
Frequency: Three years	Frequency: Annually	Frequency: Once-off	Frequency: Once-off	Frequency: Three years
Strategic pillar: Social upliftment	Strategic pillar: Education	Strategic pillar: Education	Strategic pillar: Youth development and empowerment	Strategic pillar: Education

BIHL INTEGRATED ANNUAL REPORT 2021

CORPORATE SOCIAL RESPONSIBILITY continued

EDUCATION

Despite the challenging environment, our focus on education delivered results that exceeded our expectations in terms of the sustainable impact made on the lives of the beneficiaries. The BIHL Trust continued to ensure the delivery of sustainable impact through meaningful contribution that aligns well with our strategic pillars. We truly believe that by supporting efforts in education and skills development, we help empower a sustainable Botswana.

During the year, the Maru-a-Pula School OVC Fund programme provides full scholarships to students who demonstrate exceptional academic excellence and the ability to study at school. The Trust has been a proud partner of the programme since 2012 and has invested over P2 million to date. The OVC Fund is a pool where companies and individuals are able to donate towards tuition, personal upkeep, boarding costs and associated fees of qualifying students who do not have the financial capacity. The fund is supported by other entities such as American Friends of Maru-a-Pula, UK MaP Trust, MaP alumni and other local businesses. Several students enrolled in this programme have graduated from the school with results enabling them entry into the world's most prestigious universities including Princeton (USA), Massachusetts Institute of Technology (USA) and Stanford University (USA).

The BIHL Trust saw it fit to extend its assistance to schools that have orphans and vulnerable children in the north of Botswana after seeing the great impact this programme had made at Maru-a-Pula School. The BIHL Trust, with the assistance of the Ministry of Basic Education and social workers then did research on schools in the north that had the OVC programme in place; Delta Waters International School was the selected school that had a programme that is similar to Maru-a-Pula School. With the recommendations made by the BIHL Trust to the school being fulfilled, it was then decided that a donation of P150 000 towards the OVC programme be granted.

In collaboration with the Ministry of Basic Education, the BIHL Trust rolled out the National Essay Writing Competition in July. The competition was open to 30 schools in different regions of the country. Once all essays were submitted to the 10 regional offices, adjudicators were on standby to mark the scripts. The final three essays were chosen, and final adjudication was done at the Ministry of Basic Education offices, where Tsaone Tau of Moeng College in Ratholo emerged the winner, followed by Tlotlo Ndlovu in second place and Aone Mojaule in third place.

YOUTH DEVELOPMENT AND EMPOWERMENT

Our focus on youth development and empowerment saw the BIHL Trust deliver in partnership with the Local Enterprise Authority to assist with financial literacy training; the BIHL Trust saw the need to assist entrepreneurs to better manage their businesses. The BIHL Trust contributed an amount of P160 000 towards the training. A call for applicants was made through the Local Enterprise Authority for applicants to apply for the training course which was divided into three sections which took place in November 2021, February 2022 and March 2022, and saw over 100 microentrepreneurs impacted by the training. The selection criteria for the participants were as follows:

- Youth Development Fund approved entrepreneurs
- Women in business
- Disabled entrepreneurs.

The financial literacy topics covered the following subjects:

- Choice and use of financial services
- Financial and business management and planning
- Risk and insurance
- Financial landscape.

BIHL BEWELL FRAMEWORK

COVID-19 has brought forth a number of challenges within the workplace, among them low human interaction, low morale, declining health due to a sedentary lifestyle and various mental health problems. In response to this, the BIHL Trust developed an internal campaign: **The BIHL Group BeWell Programme.** The framework symbolises health, happiness and positivity, and is based on a five-colour rainbow which shows a holistic understanding and appreciation for well-being that is relatable, engaging and practical in touching all aspects of human life.

The BeWell Programme has been run on three main internal communications platforms being email, Workplace (social interaction platform for the workplace) and the BIHL Group WhatsApp group named Legacy Engineers.

PHYSICAL WELL-BEING

The BIHL Trust collaborated with the BIHL Group Runners Club and Fitness Candy as the main ambassadors for the physical icon of the framework.

The BIHL Runners Club has developed weekly walk/run challenges, hosted on the Nike app. Staff have responded very positively to this initiative. To date, there have been three challenges: 20km, 30km and 40km all over a seven-day period.

Fitness Candy is part of the Botswana Life staff and is a fitness enthusiast. Fitness Candy shared desk stretches, encouraging staff to move away from their desks from time to time and not to sit too long.

SOCIAL WELL-BEING

This icon focuses on having a strong, positive internal culture, where teamwork is encouraged. We have shared various mailers through internal communications and have received positive feedback from staff, noting that they always look forward to the Monday Motivation mailers.

MENTAL HEALTH

Mental health has become an important topic in recent years, and employers have taken the initiative to lead and support employees to cope with mental health challenges. It was befitting to include mental health awareness in the BIHL well-being programme.

BIHL INTEGRATED ANNUAL REPORT 2021

CORPORATE SOCIAL RESPONSIBILITY continued

COMMUNITY WELL-BEING

The BIHL Trust Hands That Give is a staff volunteering project that takes place annually, with the view to encourage staff to identify and assist members of their community who are in need of social support.

This year, the BIHL Trust reserved P100 000 for staff to identify and implement socially uplifting projects under the theme: **Help individuals/families/schools adversely affected by COVID-19.**

Staff responded very positively to this call, demonstrating empathy and 'Botho', a value shared across the Southern African region that promotes harmony and respect among people living together which is crucial during these turbulent economic times. Projects were spread across the country, all focusing on different needs.

1 Bifm celebrates academic excellence

Bifm celebrated the academic excellence of students at the 2021 BIUST Virtual Graduation Ceremony, under the theme 'Leveraging on science, technologies and engineering for design-thinking in the changing world'. There is no greater stepping stone into the corporate world than the possession of a suitably recognised degree.

We wish these young professionals the best of luck as they get ready to contribute meaningfully to Botswana's economy.

As a loyal sponsor, our CEO, Neo Bogatsu, awarded the Best Student in Mathematics and Statistical Sciences a cash prize of P10 000 and a laptop worth P5 000 00.

2 Bifm traditional music expo – we connect, we learn, we grow

Bifm celebrated its 18th Traditional Music Expo in December 2021, with a spectacular ceremony that included colourful traditional music and dance performances and delicious Tswana cuisine, at Tsholofelo Park.

The exclusive event featured captains of industry and creative artists who sat together to appreciate local art. This year's performances included the young, vibrant and energetic duo, Khoisan; Rramozara, the rockstars; Mafitlhakgosi and Culture Spears.

The Bifm Traditional Music Expo is an important platform for sharing knowledge, values, celebrating culture and talent. This event also serves as a way of promoting the national brands, exposing and, in turn, promoting foreign direct investment.

We will continue to work together with the community and support such initiatives to elevate the local creative industry.

3 Bifm breakfast seminar

As part of Bifm's commitment to empowering key stakeholders, Bifm hosted clients and stakeholders at the inaugural Bifm Breakfast Seminar. The Bifm Breakfast Seminar is an event organised by Bifm to share their insights and outlook with clients. The virtual event helped clients and stakeholders understand the positions taken by Bifm to create and preserve value for their portfolios, Bifm's strategy and outlook amid uncertainties brought about by the COVID-19 pandemic.

This year's event featured Bifm professionals, local and international experts: Professor. Brothers Malema – UB Associate Professor – Economics and Mr Arthur Kamp – Sanlam Investments, Chief Economist.

The brand seeks to reinforce and showcase its capabilities of being a trusted partner. This is made possible largely by the firm's client-centric model, which enhances client confidence over time.

4 Bifm gives back to the community

Bifm donated food items to Tsholofelong Children and Youth Trust in Old Naledi. We continued with the spirit of giving by also donating bedding sets to Pudulong Centre in Mochudi and a Lenovo desktop to Serinane Primary School in the Kweneng District.

The ability to give back is a privilege and brings us great pleasure to participate in such initiatives.

At Bifm, we pride ourselves with a culture of charitable giving; one that helps to bring about positive change in tough situations around the country. Giving is now such an integral part of who we are, and we regularly find new opportunities to help charities and make change happen.

BOTSWANA LIFE RECOGNISED AS BOTSWANA'S MOST ADMIRED FINANCIAL SERVICES BRAND

Botswana Life has earned the top position as Most Admired Financial Services Brand by Africa Brand 100. The 11th annual Brand Africa 100: Africa's Best Brands 2021 was a virtual event seeking to honour brands which had proven most helpful during the pandemic.

Established in 2011, the rankings of the Brand Africa 100 survey analyse brands and businesses across 28 African countries spanning all five economic regions. Collectively, this survey accounts for 80% of the population as well as 80% of the African gross domestic product. Botswana Life had previously won fourth position in the Most Admired Financial Services Brand category in 2020. The business has since continued to display its compassion and concern for Batswana's interests in the subsequent months, culminating in this year's first position.

BOTSWANA LIFE CONTRIBUTES TO SECURITY OF BOTSWANA'S WORKFORCE BY DONATING TO FRONTLINE PARTNER ORGANISATIONS

Botswana Life once again displayed its commitment to growing further with Batswana. The leading life insurer donated a total of P200 000 to each partner organisation that served and continues to serve at the forefront during the pandemic to support them in their line of work. These partner organisations include workers unions, the armed forces and medical aid funds.

Donations were made to:

- Botswana Public Employees Union
- Amalgamated Workers Union
- Botswana Defence Force
- Botswana Police
- Botswana Prisons
- Pula Medical Aid Fund.

BIHL INTEGRATED ANNUAL REPORT 2021

CORPORATE SOCIAL RESPONSIBILITY continued

BOTSWANA LIFE HOSTS INDIVIDUAL LIFE FINANCIAL ADVISORS WIN A CAR PROMOTION TO AWARD AND MOTIVATE DISTRIBUTION SERVICES TEAM

Botswana Life hosted a 'Win a Car Promotion' in an effort to award the distribution services team for their consistency in service delivery. The promotion was an exciting motivation for financial advisors across Botswana Life's branches, with a brand-new Nissan NP300 as the ultimate prize.

The promotion, monitored by an independent auditor from the BIHL Group, announced Ms Kopano Senne as the winner.

BIC, WINS BIG IN 2021

In 2021, BIC won seven awards:

- **Global Banking and Finance Awards** – Best General Insurance Company Botswana
- **Global Business Review Magazine** – Best General Insurance Company Botswana
- **Global Brands Magazine** – Best Short-term Insurance Brand Botswana
- **PMR.Africa** – Diamond Award: First Overall Short-term Insurance Company in Botswana
- **Two Masawara Group Awards** – Top Performing Company
- **CICM** – Best General Insurer.

BIC LAUNCHES WHATSAPP FOR BUSINESS

BIC WhatsApp for Business was launched in August 2021. System functionality was stabilised and enabled for a consistent customer experience. A dedicated resource was trained and allocated to facilitate WhatsApp for Business and social platform leads. 195 clients transacted with BIC using this platform between August and December 2021. New developments to the WhatsApp platform will include enhanced WhatsApp reporting and tracking and integration of all social media lead generation into the WhatsApp platform for easier resolution and tracking of services requested. Subsequently, Bryte Botswana launched its own WhatsApp service.

BOTSWANA LIFE SPONSORS VOLLEYBALL TOURNAMENT

Botswana Life Maun Branch was the sole sponsor of the Maun annual volleyball tournament to show support to the community they operate within as well as to encourage physical well-being to help prevent non-communicable diseases among communities.

The teams that played against each other consisted of seven men's teams and three ladies' teams from Maun, Palapye, Francistown, Gaborone and Gantsi and sponsorship from Botswana Life went to buying trophies which were given to the winning teams.

Botswana Life celebrates 45-year anniversary through elementary financial

For the joyous parts of the 45th heritage milestone, Botswana Life fashioned a CSR drive in line with the existing pillars of financial literacy and technological inclusion. This was evidenced by the donation of money boxes to students and laptops with data-loaded modems to four primary schools in three districts in Botswana, namely Flowertown Primary, Mahalapye Primary, Teemane Primary and Kazungula Primary School.

A total of 5 000 money boxes were donated on this drive with the elementary focus to encourage a culture of saving and financial awareness from grassroots levels with the hope that future generations of Batswana regard the topic of finance not as daunting or intimidating, but rather as one they have been familiar with from an early stage and can develop further. For much of technological inclusion, especially during the digitalisation era, a laptop, modem loaded with a one-month data subscription and supporting merchandise was donated to the administration of the four schools.

CORPORATE SOCIAL RESPONSIBILITY continued

BIC LAUNCHES A RE BUE CUSTOMER SERVICE APPLICATION

'A re Bue' is a BIC application that enables customer/client feedback on the service they have received. It is cross-platform accessible, can operate across devices and is fluid enough to work with other systems such as Facebook, LinkedIn and WhatsApp. The app uses QR codes for quick launch as an option. It employs the latest in Microsoft technology in terms of gathering insights from data and operates in real-time in addition to five simple questions that have a 5-star rating scale to make it easy for clients to complete. 'A re Bue' reports are distributed weekly to all management for review. Over 1 300 surveys were completed by clients online. Manual survey forms are also available for clients to complete at branch service points. The complaints escalation and reporting process is included in the A re Bue system.

BIC PARTNERS WITH THE BROADCASTERS ORGANISATION

BIC is incredibly proud of the great work The Broadcasters Organisation (TBO) is doing to promote education. TBO Advisory Induction Workshop was held in February 2021, and was attended by William Surmon, who gave the closing remarks. On 16 March, Layani Elias launched the 'Month of Children in Broadcasting' in association with UNICEF. William Surmon, Chief Sales and Marketing Officer for BIC, gave the vote of thanks at the event. In attendance was the Permanent Secretary for Basic Education, Mr Simon Coles, who delivered the keynote address. Mobile apps are becoming a vital component in today's era due to COVID-19, therefore the development of the BIC Moithuti app was tried and tested by a couple of parents, students and their teachers at BIC. As technology becomes vital in learning, TBO held a fruitful ICT dialogue over the weekend. Panellists shared and discussed mind-blowing information about the importance, advantages and disadvantages of digital learning in today's era.

BIC ENGAGES PARTNERSHIPS

BIC hosted a trip to Sun City from 3 to 5 September. The delegates included brokers, bankers and BIC team members. Loads of fun was had by all including zip line, game drives and many other events. BIC hosted a braai and drinks at the BIC guest house towards the end of October. The brokers and bankers really appreciated the opportunity to unwind with the BIC leadership team. BIC sponsored a dart board for spectrum insurance brokers. This was done 'tongue in cheek' as all the insurers meet at Spectrum on a Friday evening for drinks and darts. During December, BIC hosted a clay pigeon shooting day with our broker partners attending the event. A fun-filled day was had by a large turnout. Christmas hampers were provided for the nurses and staff at the Princes Marina Hospital in support of SATIB.

BIC SPONSORS TSELA RIDERS

BIC sponsored the first-ever virtual cycle race in response to the COVID-19 pandemic. The cyclists taking part in the BIC Virtual Solo Ride challenge stated that it was a great experience and was phenomenal. Records were achieved with some cyclists doing over 300km in a day! A big thank you to BIC for their sponsorship of:

- 84 reflector vests
- 84 water bottles
- Prize money amounting to P16 750
- 10 camp chairs and caps for top 10.

BIHL INTEGRATED ANNUAL REPORT 2021

CORPORATE GOVERNANCE OVERVIEW

The board supports the highest standards of corporate governance and the development of best practice.

BIHL is fundamentally committed to good corporate governance and strives to ensure business integrity and professionalism in all activities, and that all aspects of its business conform to all relevant guidelines and regulations.

The board ensures that our strategy remains relevant, in line with current and emerging investor and stakeholder requirements, making adjustments and changes to maintain short-, medium- and long-term value-focused objectives. Good corporate governance forms part of this and helps us to build an environment of trust, transparency and accountability necessary to facilitate long-term investment, financial stability and business integrity, thereby supporting stronger growth and a society that is more inclusive.

The board supports the highest standards of corporate governance and the development of best practice. The board is of the opinion that the BIHL Group currently complies with the governance principles of King IV™ and the BSE Listings Requirements. BIHL's corporate governance practices are continually reviewed and improved by benchmarking against accepted best practice. The King IV™ application is set out on pages 90 to 95.

The board is committed to continuous improvement of our corporate governance principles, policies and practices, and does so through awareness of evolving regulation and best practices, engagement with regulators and industry bodies and regular feedback from other stakeholders.

ETHICS AND CULTURE

The board is committed to the highest standards of ethical behaviour. Directors strive to uphold the standards of conduct required of them by law, regulation and policies, while demonstrating behaviours that are consistent with the group's values.

BIHL recognises that financial crime and unlawful conduct conflict with the principles of ethical behaviour, as set out in the Code of Ethical Conduct, and undermine the organisational integrity of BIHL. The commitment to combating financial crime is designed to counter the threat of white collar crimes, including fraudulent acts and malicious intentional acts that damage BIHL's good standing. A zero-tolerance approach is applied to these matters and all alleged offenders are prosecuted. BIHL has in place an anonymous hotline that stakeholders can use for reporting any wrongdoing in the business. The anonymous hotline ensures independence and good practice.

CORPORATE CITIZENSHIP

The board acknowledges the role of the group in:

- contributing to the growth and development of the societies in which we operate
- being accountable for our impact on the environment, and
- evolving as our communities change. Compliance with laws and regulations is a critical aspect of our citizenship efforts.

Governance structure

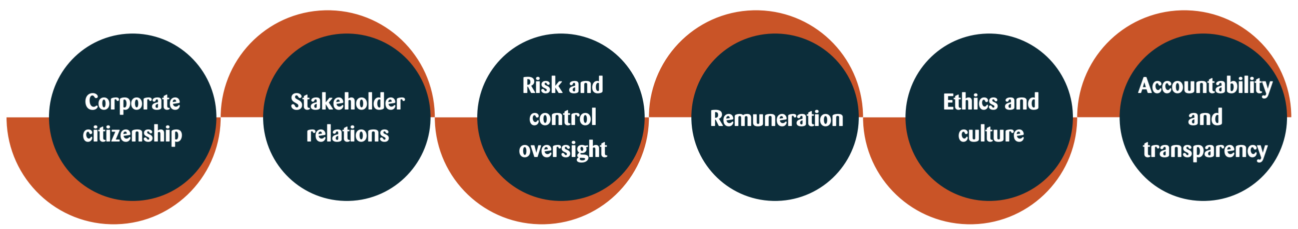
The board

Batsho Dambe-Groth *(Group Chairman)***@
Catherine Lesetedi *(Group Chief Executive Officer)*
Kudakwashe Mukushi *(Group Chief Financial Officer)*
Chandrakant Chauhan *(Botswana Life Chairman)***
John Hinchliffe *(Bifm and Bifm Unit Trust Chairman)***
Andrew Cartwright *(Audit and risk committee Chairman)***
Kobus Vlok^
Lieutenant General Tebogo Masire**
Mahube Mpugwa *(Group Acting Chairman)***
Nigel Suliaman^
Robert Dommisse^

** *Independent non-executive*
^ *Non-executive*
@ *Resigned on 31 December 2021*

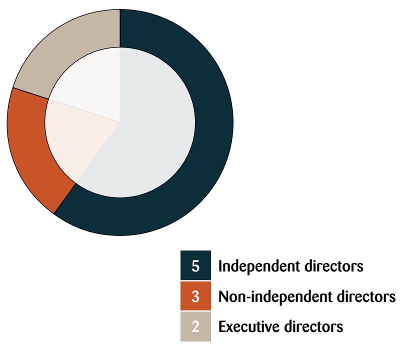
	Audit and risk committee	Human resources committee	Nominations committee	Investment committee	Independent review committee
	Refer to pages 93 and 96 for the full report.	*Refer to page 99 for more detail.*	*Refer to page 98 for more detail.*		*Refer to page 98 for more detail.*
Members	Andrew Cartwright *(Chairman)* Chandrakant Chauhan John Hinchliffe Philip Van Rooijen Robert Dommisse	Kate Maphage *(Chairman)* Batsho Dambe-Groth Mahube Mpugwa Robert Dommisse	Chandrakant Chauhan *(Chairman)* Batsho Dambe-Groth	Mahube Mpugwa *(Chairman)* Nigel Suliaman Robert Dommisse	John Hinchliffe *(Chairman)* Chandrakant Chauhan
Independent	3 of 5	3 of 4	2 of 2	1 of 3	2 of 2
Focus areas	• Reporting (financial and integrated) • Audit matters (internal and external) • Risk and compliance management, information and technology governance • Information and cybersecurity	• Remuneration strategy and policy • Human capital management • Human resource related risks	• Succession planning • Nomination matters (structure, size and composition)	• Determines and monitors appropriate investment strategies for shareholder solutions • Implementation and monitoring of risk management processes to ensure that the risks arising from trading positions are within the approved risk parameters	• Related party transactions

Oversight priorities

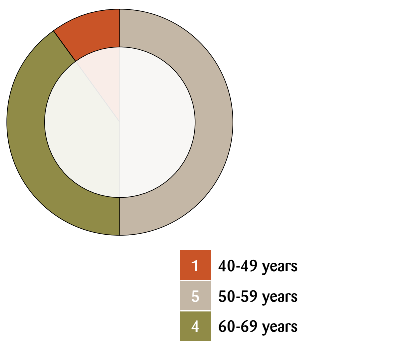


CORPORATE GOVERNANCE OVERVIEW continued

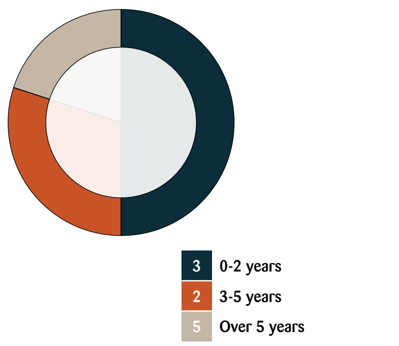
Board independence



Board age diversity



Board tenure



THE BOARD

The unitary board consists of 10 directors of whom five are independent non-executives. The Chairman is committed to ensuring the overall effectiveness of the board and that it achieves the appropriate composition and balance of directors. The magnitude and complexity of the group influences our board's composition and we strive to have an appropriate balance of diversity to ensure robust governance, keen commercial decision-making and strong technical inputs. We assess diversity against skills and expertise, independence, gender and age as well as tenure.

Board charter

The board operates in terms of a formal charter that is reviewed and adopted annually, the purpose of which is to regulate the conduct of its business in accordance with sound corporate governance principles. The objectives of the charter are to ensure that all directors acting on BIHL's behalf are aware of their duties and responsibilities and the legislation and regulations affecting their conduct. Further, it seeks to ensure that sound corporate governance principles are applied in all dealings by directors in respect of and on behalf of BIHL. The charter sets out the specific responsibilities to be discharged by the directors collectively and individually. The charter is available upon request from the BIHL Group.

Skills and expertise

Board members are required to have the highest levels of integrity, a deep understanding of governance, appropriate technical, financial and non-financial knowledge and interpersonal skills, in particular, skills and experience in the areas of insurance, risk, capital management, technology, finance, auditing, accounting, legal and human resources. The board is collectively responsible for the long-term success of the group and for ensuring leadership within a framework of effective controls.

The board sets the strategic direction of the group, approves the strategy and takes the appropriate action to ensure that the group is suitably resourced to achieve its strategic aspirations. The group considers the impact of its decisions and its responsibilities to all our stakeholders, including the group's employees, shareholders, regulators, clients, suppliers and communities in which it operates.

Board focus areas for 2021 and 2022

What kept the board busy this year

- Reviewed and approved the five-year strategy
- Reviewed and scrutinised the strategic and operational performance of the business
- Received regular risk reports
- Reviewed the risk appetite statement
- Monitored the group's financial performance
- Approved the group's budget
- Approved the full and half-year results and considered the key internal and external factors in determining payment of a final dividend
- Received an update on management team succession planning
- Received an update of the macroeconomic headwinds and tailwinds in the global economy including an assessment of their impact on the key drivers of the group's financial performance
- Approved the anti-money laundering/combating financial terrorism and proliferation (AML/CFT and P)

What will keep the board busy in 2022

- Focus on digital transformation and innovation
- Ensuring strong business performance
- Key focus areas carried over from 2021
- Approve the group's budget
- Monitor the group's financial performance
- Assess the BIHL Group data privacy policy
- Talent management and succession planning
- Monitor transformational office initiatives
- Monitor the group risk frameworks
- Assess the group internal control policy

Board independence

Through the appointment of independent directors and the separation and clear definition of the roles and responsibilities of the Chairman and CEO, BIHL has a clear balance of power and authority at board level. The group ensures that the interests of all stakeholders are protected.

The board's primary responsibilities

The group CEO is responsible for the management of all aspects of the group's businesses, developing the strategy in conjunction with the Chairman and the board, and leading its implementation. The group executive committee comprises the group CEO, the group CFO and the CEOs from Botswana Life and Bifm.

Through the support of the group Company Secretary, the board maintains a scheduled programme of meetings and rolling agendas to enable it to use its time most effectively and efficiently. There is sufficient flexibility in the programme for specific items to be added to any particular agenda to ensure that the board can focus on key matters at the appropriate time.

The board also schedules informal sessions and interactions, which allows board members to discuss areas of the business strategy and the external environment with members of the management team.

Members of the management team and other senior executives attend board and subcommittee meetings to ensure effective interaction with the board. The group CEO comments on current trading conditions, business performance, the market, employees, relevant stakeholders and regulatory and external developments at each meeting.

BOARD AND COMMITTEE MEETING ATTENDANCE

The board meets at least four times per annum to consider business philosophy and strategic issues, set risk parameters, approve financial results and budgets and monitor the implementation of delegated responsibilities. Special board meetings are convened when necessary. Where appropriate, decisions are taken by way of circulated resolutions.

The board and committee meetings during the year are set out below.

	Board	Audit and risk committee	Human resources committee	Nominations committee
Batsho Dambe-Groth** *(Group Chairman)*	6/6	–	4/4	1/1
Catherine Lesetedi^ *(Group Chief Executive Officer)*	6/6	–	–	–
Kudakwashe Mukushi^ *(Group Chief Financial Officer)*	6/6	–	–	–
Chandrakant Chauhan** *(Botswana Life Chairman)*	6/6	4/4	–	1/1
John Hinchliffe** *(Bifm and Bifm Unit Trust Chairman)*	6/6	4/4	–	–
Andrew Cartwright**	6/6	4/4	–	–
Kate Maphage**	n/a	–	4/4	–
Kobus Vlok**	6/6	–	–	–
Lieutenant General Tebogo Masire**	5/6	–	–	–
Mahube Mpugwa**	6/6	–	4/4	–
Nigel Suliaman*	5/6	–	–	–
Philip Van Rooijen*	–	4/4	–	–
Robert Dommisse*	6/6	4/4	4/4	–

** *Independent non-executive*
* *Non-executive*
^ *Executive*

CORPORATE GOVERNANCE OVERVIEW continued

BOARD COMMITTEES

In the course and scope of discharging their mandate, the directors are empowered to delegate part of their duties. Certain functions of the board are facilitated through the main subcommittees including the audit and risk, human resources, nominations, investment and independent review committees. These subcommittees have formal charters and report to the board at regular intervals and are chaired by independent non-executive directors. Reappointment to the subcommittees is not automatic and is subject to the approval of BIHL's nominations committee. When BIHL directors retire by rotation, they automatically retire from the subcommittees on which they serve.

The terms of reference for all board subcommittees have been confirmed by the board. There is full disclosure from these subcommittees to the board, and their minutes are submitted to the board for noting. In addition, all authorities delegated by the board are reviewed and updated annually by the board.

Information on the board of directors and their committee memberships is included in this report on pages 84 to 87.

BOARD APPOINTMENTS AND SUCCESSION PLANNING

Directors are selected and appointed in a formal and transparent manner to achieve the necessary balance of skills, experience and professional and industry knowledge to meet BIHL's strategic objectives. We follow broad principles to maintain an independent and vibrant board that constructively challenges management's strategies and evaluates performance against agreed benchmarks and applicable codes of conduct. The majority of the non-executive directors are independent.

The board gives strategic direction to BIHL, appoints the CEO and ensures that succession planning is in place and reviewed regularly. The group seeks to promote independent judgement, diverse mindsets and all directors are subject to an annual performance evaluation. Nomination and approval of appointees to the board and its committees is carried out in accordance with the remuneration and nomination charter.

We maintain a balance among non- executive directors that ensures that the majority of these are independent directors. John Hinchliffe, Mahube Mpugwa and Chandrakant Chauhan will retire by rotation at the company's forthcoming AGM. The re-election of directors will be dealt with via individual resolutions. BIHL's company Constitution requires that one-third of the directors of the group retire by rotation and offer themselves for re-election by shareholders at the AGM, with the exception of the executive directors.

RISK AND CONTROL

The group's enterprise risk management framework incorporating the principal and key risks is approved by the board. The board also approves the group's risk appetite and then monitors the implementation of both, including the approval of key risk frameworks through its committee and receives reports on under- and over-utilisation of risk appetite together with triggers, limits and management actions. Refer to the risk management report on page 23 for further detail.

STAKEHOLDER RELATIONS

The board and management proactively engage with material stakeholders and address their concerns in the best way possible. Collaboration is important to the group's approach and strategic partnerships are driven with like-minded stakeholders. In addition, personal meetings with analysts and fund managers/trustees are arranged when appropriate. BIHL publishes its interim and annual results in the media when finalised and, in addition, mails its integrated annual report to all shareholders. Refer to stakeholder engagement on page 26 for further detail.

Where there is an item of special business included in the notice of the AGM, it is accompanied by a full explanation of the implications of the proposed resolution. In the course of the AGM, as at other shareholder meetings, the Chairman provides reasonable time for discussion.

Shareholders are always encouraged to attend the AGM.

ACCOUNTABILITY AND TRANSPARENCY

The board commits to providing credible and comprehensive financial and non-financial reporting accompanied by constructive stakeholder engagement. With respect to the public and other stakeholder interests, we align with best practice relating to disclosures and are subject to internal and/or external assurance and governance procedures.

IT AND INFORMATION GOVERNANCE

The BIHL Group's IT charter represents the board's and group senior management's expectations regarding the governance of the utilisation of information across the BIHL Group. The information governance framework provides guidance on the use of information and it is key due to the growing importance placed on information by enterprises, clients and regulators and is supported through formalisation of the underlying information management practices.

Information management refers to our capabilities focused on managing various types of information or aspects related to information. The application of these management practices can improve the value and quality of information. Our information governance is ultimately the responsibility of the board and senior management of the BIHL Group.

The company has an IT internal control framework in place. Our IT internal control framework is aligned to the IT control frameworks that include ITIL and CobiT 5. Sanlam IT internal audit, and an independent external entity conduct annual audits on the effectiveness of the IT internal controls and provide feedback through reports communicating gaps identified and controls required to mitigate and improve the security position of the group or minimise the risk exposure to the group's information assets.

There is board oversight for all IT activities. The group has an IT governance structure with forums and committees formed to provide feedback on IT progress to the IT steering committee monthly.

The IT department and information management systems are fully integrated. During the year, we undertook a number of IT projects to minimise IT risk and increase operational efficiency including:

- Microsoft Intune
- Microsoft OneDrive and VPN two factor authentication
- Database encryption and Oracle audit vault (tracking and monitoring system privileged accounts) – project ongoing
- Conducted penetration testing and vulnerability scanning with mitigating controls applied
- Internal and external audits conducted
- Crown Jewels Risk Assessment (determining the group's mission-critical systems then assessing the risk exposure to these systems)
- Migration of the Microsoft Productivity suite (Exchange email, user folders to OneDrive, Word, PowerPoint, Excel, Outlook) to the Microsoft Cloud
- Self-service password reset
- Use of the Knowbe4 platform for reading and acceptance of business policies
- Introduction of work-from-home policy and guidelines, and
- Review of IT policies, procedures and standards.

Management provides the board with quarterly reports on the progress of the IT function's objectives and whether it adequately protects the company from IT risk. The report details progress on key IT activities, challenges and risks. IT risks are reviewed monthly and the register is updated accordingly. There are programmes in place to manage these risks in line with the group's cyber resilience framework.

The BIHL Group has, through the audit and risk committee, implemented the cyber resilience framework in its approach to cybersecurity risks. The framework incorporates key aspects of the National Institute of Standards and Technology Cybersecurity Framework, CobiT 5 and the ISO 27002 standards and comprises five key domains namely, governance, early warning, monitoring, response and preventions. The group implements a combination of people, process and technology solutions together with proactive, regular gap assessments against predefined group baselines and standards.

The group has processes in place to protect against any potential cybersecurity risks including:

- Cyber awareness and publishing training through campaigns for the entire staff on a monthly basis
- Use of company policies, procedures and standards to guide users on how to use company assets/property and guide them on how to conduct themselves while under the employ of the company
- Proactive monitoring through cyber reason and security information and events management
- Conducting internal and external audits
- Conducting cybersecurity readiness assessments and Crown Jewels Risk Assessments
- Monitoring of privileged accounts activities of business systems
- Encryption of the Botswana Life core system database
- Use of Secure File Transfer Protocol to securely send and receive files to and from external entities
- Use of Microsoft Intune for group user-issued mobile device management to protect corporate data
- Use of perimeter and web application firewalls
- Use of the demilitarised zone to segregate the network that contains and exposes the group's external-facing services to an untrusted network. This provides an additional layer of security as it ensures that there is no direct access from the internet to systems hosted on the internal network
- Use of antivirus and regular patch management
- Regular penetration testing and vulnerability scanning
- Two-way factor authentication
- Remote connection to business systems strictly via VPN, and
- Bitlocker implementation on group laptops to protect corporate data by providing data encryption on the laptops.

A business continuity and disaster recovery plan is in place, governed by the business continuity management policy. The policy stipulates that biannual rehearsals to test business readiness against any form of disaster be performed with gaps identified documented in an activity report for resolution and tracking purposes. A detailed business continuity and disaster recovery test report is then prepared and shared with the IT steering committee, executive committee and the board.

During the year, there were no incidents of cybersecurity breaches.

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CORPORATE GOVERNANCE OVERVIEW continued

REMUNERATION PHILOSOPHY

The board recognises that appropriate remuneration for executive directors, members of the BIHL executive committee and other employees is inextricably linked to the attraction, development and retention of top-level talent and intellectual capital within the group. BIHL's operating environment is characterised by a tough economic climate, changing regulatory requirements and ongoing skills shortages. Therefore, it is essential that adequate measures are in place to attract and retain the required skills. In order to meet the strategic objectives of a high-performance company, the remuneration philosophy is positioned to reward exceptional performance and to maintain that performance over time.

The primary objectives of the policy are to:

- attract, motivate, reward and retain key talent
- promote the company's strategic objectives, within its risk appetite
- promote positive outcomes across the capitals which the group uses or affects
- promote an ethical culture and behaviour that are consistent with our values and which encourage responsible corporate citizenship.

BIHL's remuneration philosophy aims to:

- inform stakeholders of BIHL's approach to rewarding its employees
- identify those aspects of the reward philosophy that are prescribed and to which all businesses should adhere
- provide a general framework for all the other elements of the reward philosophy
- offer guidelines for short-term incentive (STI), long-term incentive (LTI) and retention processes
- offer general guidelines about how the businesses should apply discretion in their own internal remuneration allocation and distribution.

The principle of management discretion, with regard to individual employees, is central to the remuneration philosophy on the basis that all rewards are based on merit. However, the overarching principles and design of the remuneration structure are consistent, to support a common philosophy and to ensure good corporate governance, with differentiation where appropriate. The BIHL remuneration philosophy implies that the businesses are mandated to apply their own discretion, given the role that their own remuneration or human resources committees play in ensuring good governance. The group continues to apply a total reward strategy for its employees, as far as practicable. This offering comprises remuneration (which includes cash remuneration, STIs and LTIs), benefits (retirement funds, group life, etc.), learning and development, an attractive working environment and a range of lifestyle benefits.

PAY PRINCIPLES

In applying the remuneration philosophy and implementing the total reward strategy, a number of principles are followed.

Pay for performance

Performance is a key guiding principle of the remuneration philosophy and, as such, all remuneration practices are designed to create clear differentiation between individuals with regard to performance. Remuneration practices are also designed to create a clear alignment between performance hurdles and the achievement of the group's strategy.

Competitiveness

A key objective of the remuneration philosophy is that remuneration package levels should enable the group and its businesses to attract and retain highly talented employees in order to ensure the group's performance, growth and sustainability.

Leverage and alignment

The reward impact for individual employees is, as far as possible, aligned with and influenced by:

- the interests of BIHL shareholders
- the performance of the group as a whole
- the performance of any region, business unit or support function
- the employee's own performance contribution.

Consistency and fairness

The reward philosophy strives to be consistent and transparent. Where there is differentiation between employees performing similar work, the differentiation is fair, rational and explainable. Differentiation in terms of market comparison for specific skills groups or roles is necessary and differentiation concerning performance is imperative. Unfair differentiation is unacceptable.

Attraction and retention

Remuneration practices are recognised as a key instrument in attracting and retaining the required talent to meet the group's objectives and ensure its sustainability over the long term.

Shared participation in relevant components of remuneration

Employee identification with the success of BIHL is important owing to its direct link to BIHL's and individuals' performance. All employees should be recognised and rewarded for their contribution and the value they add to BIHL, and, in particular, for achieving excellent performance and results, in relation to BIHL's stated strategic objectives. The performance management process contributes significantly towards obtaining this level of participation and towards lending structure to the process.

Best practice

Reward packages and practices reflect local and international best practice, where appropriate and practical.

Market information

Accurate and up-to-date market information, information on best practice and trend information from reputable sources are crucial in determining the quantum of remuneration packages.

EXECUTIVE REMUNERATION

BIHL executive directors and executive committee members are contracted as full-time, permanent employees for employment contracting purposes. Notice periods regarding termination of employment range from one month to three months' written notice. Bonus payments and the vesting of LTIs that are in place at the time of an individual's termination of service are subject to the rules of the relevant scheme with some discretion being allowed by the HR committee based on the recommendations of the CEO.

The different components of remuneration applied for all group employees are:

- Total guaranteed package (TGP)
- STIs
- LTIs.

The quantum of the different components of the package is determined as follows:

- The STI component of remuneration is based on individual and business performance during the performance measurement period (January to December)
- The LTI allocations are based on the individual's performance, potential and strategic contribution to the group and/or business, and on market benchmarks for the employee's role.

Total guaranteed package

TGP is the guaranteed component of the remuneration offering. It forms the basis of the group's ability to attract and retain the required skills. The guaranteed package is market-related and based on the individual's performance, competence and potential. TGP is normally positioned on the 50th percentile of the market for general staff and, for the high-skilled area, at the 75th percentile.

As an integral part of TGP, BIHL provides a flexible structure of benefits that can be tailored, within certain limits, to individual requirements. These include:

- retirement funding
- group life cover
- medical aid/insurance.

Average TGP is normally set by reference to the median paid by a comparator group of similarly sized companies which BIHL considers to be appropriate. The comparator group is made up of a sizeable and representative sample of companies that are in the insurance sector (but not limited to this sector), have similar market capitalisation and turnover in terms of revenue. The process followed for benchmarking TGP against these comparator companies is data obtained and analysed from several local salary surveys. In addition to this benchmarking process, BIHL considers the skills, potential and performance of the individual concerned and the current consumer price index of the country. TGP levels are positioned on average around the median of the comparator market. Where specific skills dictate, TGP levels may be set in excess of the median.

Short-term incentives

The purpose of the annual bonus plan is to align employees' performance with the group's goals and to motivate and reward employees who outperform the agreed performance hurdles. The focus is on operational matters to optimise returns to the shareholders. The design and quantum of the annual performance bonus is regularly reviewed against best market practice and the quantum is benchmarked against the market using a relevant comparator group. However, gaining access to this market data has been a challenge due to limited information published in the market.

The annual bonus plan is a cash-based bonus scheme. Where the annual business and individual bonus targets are achieved in full, 20% of the TGP will be paid to employees. For certain senior management (and specifically executive directors), up to 45% of the TGP will be paid on achievement of targets. Where the bonus targets are not achieved in full, a reduced bonus, based on a sliding scale, will be paid.

The annual bonus targets at business unit level incorporate financial and non-financial performance measures that are directly linked to the group strategy and key performance indicators, including the operating profit result, new business revenue growth, management expense ratio and transformation targets. The specific performance targets and relative weighting are determined per business unit based on the business unit's strategic initiatives. The support functions' targets reflect the group's overall performance.

Long-term incentives

BIHL currently grants awards under the following three LTI plans:

- The BIHL conditional share plan (CSP)
- The BIHL share option scheme (SOS)
- The Bifm citizen economic empowerment (CEE) share-based scheme.

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CORPORATE GOVERNANCE OVERVIEW continued

These LTI plans are equity-settled except for the Bifm CEE plan which is cash-settled. The purpose of the BIHL share plans is to attract, retain and reward selected employees of the group who are able to contribute to the business and to stimulate personal involvement of the employees thereby encouraging their continued service with the group.

BIHL's general policy is that awards are made annually to ensure that the total face value of outstanding awards (calculated on their face value at date of grant) is equal to a set multiple of the individual's TGP. The set multiples are determined by reference to the individual's job grade and performance impact on the group. In addition, transformation considerations and the role and performance of an individual and the need to attract and retain key talent are considered when determining the total multiple. In general, the total multiple for award ranges from 20% to 150% of TGP but may exceed this in specific circumstances as referred to above.

Limits

The aggregate number of shares at any one time which may be allocated under the share schemes shall not exceed 10% of the issued shares. The maximum number of shares allocated in respect of all unvested conditional awards granted to any participant that have been allocated in respect of all unvested options granted shall not exceed two million or 1% of the issued shares.

The share scheme awards are eligible for vesting after year three.

REMUNERATION DETAILS FOR EXECUTIVE DIRECTORS

Remuneration earned by the executive directors was as follows:

Remuneration for the year ended 31 December 2021

Individual	Months in service	Salary P	Gratuity fund P	Sub-total guaranteed package P	Performance bonus P	Long-term incentive P	Total remuneration P
C Lesetedi	12	3 000 000	480 000	3 480 000	1 350 000	1 792 455	6 622 455
K Mukushi	12	2 052 336	328 374	2 380 710	961 478	896 227	4 238 416
Total		5 052 336	808 374	5 860 710	2 311 478	2 688 683	10 860 871

Remuneration for the year ended 31 December 2020

Individual	Months in service	Salary P	Gratuity fund P	Sub-total guaranteed package P	Performance bonus P	Long-term incentive P	Total remuneration P
C Lesetedi	12	3 000 000	480 000	3 480 000	1 500 000	1 250 953	6 230 953
K Mukushi	12	2 052 336	328 374	2 380 710	914 991	1 501 150	4 796 851
Total		5 052 336	808 374	5 860 710	2 414 991	2 688 683	11 027 803

EFFECTS OF COVID-19 AND APPLICATION TO REMUNERATION COMPONENTS

The COVID-19 landscape and the material impact it had on business performance informed decisions taken on the remuneration policy for guaranteed pay, bonuses and LTIs as follows:

Guaranteed pay

In February 2021, the business awarded salary increases for general employees, however, for the executive employees there were no increments awarded based on the volatility of the COVID-19 pandemic and its direct impact on the insurance sector. In February 2022, the HR committee approved increases across the board even though performance for the group had dropped. The consideration to award increases was due to concerns around the high inflationary environment and staff retention.

Bonuses

The minimum annual business bonus targets were not achieved for some of the businesses, however, the HR committee approved a modest discretionary pool to reward exceptional performance and retain key and critical talent.

Long-term incentives

Individual performance targets were met in 2021 albeit during difficult trading conditions and, as such, the HR committee approved the vesting of the shares.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

Fee structures are reviewed every three years based on data from independent service providers and, where applicable, external advice. Recommendations are reviewed for reasonableness by the HR committee and the board and are then proposed to shareholders for approval at the AGM (refer to detail of proposed fees in the AGM notice).

The fee structure will remain in place for two years, until 30 June the following year. Non-executive directors receive board seating fees and retainers. BIHL pays for all travel and accommodation expenses in respect of board meetings. The Chairman receives a fixed annual fee that is inclusive of all board and committee meeting attendance, as well as all other services performed on behalf of the group.

Disclosure of individual directors' emoluments, as required in terms of the BSE Listings Requirements, is detailed below.

Non-executive directors' emoluments for the year ended 31 December 2021

Name	Retainer	Board meeting	Audit and risk committee	HR committee	Subsidiary boards	Nomina-tions committee	Other	Investment committee	Credit committee	Total
B Dambe-Groth	–	475 000	–	–	–	–	–	–	–	475 000
C Chauhan	65 000	115 764	126 404	–	100 000	68 250	–	–	–	475 418
J Hinchliffe	65 000	115 764	94 803	–	115 000	–	145 375	–	–	535 942
M Mpugwa	65 000	115 764	–	56 700	95 000	–	–	107 276	143 076	582 816
Lieutenant General T Masire	65 000	96 470	–	–	–	–	–	–	–	161 470
A Cartwright	65 000	115 764	287 644	–	80 000	–	–	–	–	548 408
R Dommisse*	65 000	115 764	126 404	56 700	95 000	–	–	–	–	458 868
N Suliaman*	65 000	96 470	–	–	75 000	–	–	143 076	107 276	486 822
K Vlok*	65 000	115 764	–	–	80 000	–	–	–	–	260 764
Total	520 000	1 362 524	635 255	113 400	640 000	68 250	145 375	250 352	250 352	3 985 508

* *The fees are paid to the Sanlam Group and not individual directors.*

CORPORATE GOVERNANCE OVERVIEW continued

Non-executive directors' emoluments for the year ended 31 December 2020

Name	Retainer	Board meeting	Audit and risk committee	HR committee	Subsidiary boards	Nomina-tions committee	Other	Investment committee	Credit committee	Total
B Dambe-Groth	–	475 000	–	–	–	–	–	–	–	475 000
C Chauhan	65 000	77 176	126 404	–	115 000	68 250	20 000	–	–	471 830
J Hinchliffe	65 000	77 176	126 404	–	100 000	–	105 875	–	–	474 455
M Mpugwa	65 000	77 176	–	56 700	95 000	–	–	107 276	143 076	544 228
Lieutenant General T Masire	65 000	77 176	–	–	–	–	–	–	–	142 176
A Cartwright	65 000	77 176	287 644	–	80 000	–	–	–	–	509 820
R Dommisse*	–	38 588	–	–	95 000	–	–	143 076	107 276	383 940
N Suliaman*	65 000	77 176	–	–	80 000	–	–	–	–	222 176
K Vlok*	–	19 294	–	–	–	–	–	–	–	19 294
Total	**390 000**	**995 938**	**540 452**	**56 700**	**565 000**	**68 250**	**125 875**	**250 352**	**250 352**	**3 242 919**

* *The fees are paid to the Sanlam Group and not individual directors.*

PERFORMANCE EVALUATION

The directors complete board self-assessment questionnaires on an annual basis to evaluate the effectiveness of the board as a whole.

This mechanism is used to ensure that the responsibilities of the board and of individual directors in terms of the board charter, the Constitution and significant governance principles of King IV™ are adhered to, and that adequate attention is paid to matters of both performance and conformance. The results of the self-assessments are collated by the Company Secretary, considered by the Chairman and discussed with the board for purposes of performance improvement. The performance of the individual directors is reviewed during individual discussions between each respective director and the Chairman. The Chairman's performance is, in turn, reviewed by the other directors.

The board conducted a self-evaluation exercise in November 2021. An area marked for improvement was time allocated to board meetings whereby the board agreed that the time allocated to board meetings was inadequate to allow them to fully delve into pertinent issues.

Committee evaluations were conducted in the fourth quarter of 2021. There were various findings from each committee, which were shared by the respective chairmen. The main issue is in making the meetings more effective by adopting a strategic reporting approach and eradicating a lot of detail in the reports which takes away attention from the key issues. The other issue is to bring in more skills to the board, especially in this digital era.

SHARE DEALINGS AND CONFLICTS OF INTEREST

Directors are required to inform the board timeously of conflicts of interest or potential conflicts of interest that may exist in relation to particular aspects of BIHL's business. Directors are obliged to recuse themselves from discussions on matters in which they may have a conflicting interest, unless resolved otherwise by the remaining members of the board. Directors are required to disclose their shareholding in BIHL, other directorships and their interests in contracts that BIHL may conclude, at least annually and as and when changes occur.

All directors are required to consult with and obtain consent of the Chairman and the CEO in the case of executive directors with regard to appointments to the boards of other companies. The directors have declared their interests and are free from any business or other relationships which could reasonably be said to interfere with the exercise of their judgement.

The BIHL Group complies with the BSE Listings Requirements in respect of share dealings by its directors. In terms of BIHL's closed-period policy, all directors and staff are precluded from dealing in BIHL securities during closed periods. These are typical while half-year and full-year financials are being finalised and during other price-sensitive transactions such as a period covered by a cautionary announcement. A preapproval policy and process for all dealings in BIHL securities by directors and selected key employees is strictly adhered to. Similar trading policies regarding personal transactions in all financial instruments are enforced at BIHL's portfolio investment companies.

All directors have access to the advice and services of the Company Secretary, Haig Ndzinge, and are entitled to obtain independent and professional advice at BIHL's expense.

STATUTORY ACTUARY AND FORENSICS

Edwin Splinter is an independent statutory actuary who is not in the employ of BIHL. He is responsible for assisting the board in all actuarial matters and conducts the actuarial valuation of Botswana Life. He is also responsible for all regulatory reporting to the Regulator or NBFIRA and for safeguarding the interests of policyholders. The statutory actuary attends the interim and year-end board meetings and audit and risk committee meetings. The report of the statutory actuary is set out on pages 52 to 55 of this integrated annual report.

COMPANY SECRETARY

The Company Secretary, Haig Ndzinge, plays a vital role in the corporate governance of the group and is responsible for ensuring that the board complies with statutory regulations and procedures. He is accessible to the board and provides guidance and assistance in line with the requirements outlined in King IV™ and the BSE Listings Requirements. The board has considered and satisfied itself on the competence, qualifications and experience of the Company Secretary.

He is accountable to the board for ensuring that prescribed procedures are complied with and that sound corporate governance and ethical principles are adhered to. Directors are entitled to seek independent professional advice concerning the discharge of their responsibilities at BIHL's expense, though the encouraged practice is for this to be done through the Company Secretary.

The board is also satisfied that an arm's-length relationship is maintained between the Company Secretary, the board and its subcommittees and confirms that Haig Ndzinge is not a director or public officer of the group or any of its subsidiaries.

STRATEGIC RISK MANAGEMENT

In acknowledging its responsibility for strategic risk management within BIHL, the board has tasked the audit and risk committee to ensure that these responsibilities are fulfilled. A major function of the committee is therefore to analyse and report to the board on the status of various risks and risk management policies and procedures. A detailed risk management report is included on pages 23 to 25.

EMPLOYMENT EQUITY AND LOCALISATION

Employment equity and localisation remain high-priority business imperatives. All BIHL's businesses have localisation plans which are reviewed annually to ensure they remain aligned with BIHL's business objectives and industry needs.

FINANCIAL REPORTING

The minimum financial reporting standards for BIHL annual financial statements are compliant with IFRS and the Companies Act (CAP 42:10).

INTERNAL AUDIT

BIHL's internal audit function is coordinated at Sanlam Group level, assisted by two locally appointed resources who sit at a BIHL level. Regular risk-focused reviews of internal control and risk management systems are carried out throughout BIHL Group. The authority, resources, scope of work and effectiveness of this function is reviewed regularly by the audit and risk committee.

EXTERNAL AUDIT

The external auditor provides an independent assessment of BIHL's systems of internal financial control and expresses an independent opinion on the annual financial statements. The external audit function provides reasonable but not absolute assurance on the accuracy of the financial disclosures within disclosed thresholds of materiality. The external auditor's plan is reviewed by the audit and risk committee to ensure that significant areas of concern are covered without infringing on the external auditor's independence and right to the audit.

There exists close cooperation between the internal and external auditors to ensure that there is adequate coverage of all material areas of BIHL's business, sharing of information and minimisation of duplicated effort.

LEGAL COMPLIANCE

BIHL considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business. The group ascribes to the BSE Listings Requirements and is required to provide a compliance certificate annually and the Botswana Accountancy Oversight Authority issues BIHL with a compliance certificate.

During the year, there have been no compliance issues or any legal actions for anti-competitive behaviour or anti-trust and monopoly practices at the group.

BIHL INTEGRATED ANNUAL REPORT 2021

CORPORATE GOVERNANCE OVERVIEW continued

BIHL's compliance function facilitates the management of compliance through the analysis of statutory and regulatory requirements, drafting compliance management plans and subsequently implementing the plans throughout the group and monitoring the implementation of suggested controls to ensure compliance with applicable statutory and regulatory requirements.

The compliance framework manual which was rolled out to the businesses covers dissemination of new legislation, handling of regulatory visits, development/review of the compliance universes, customer due diligence procedures and suspicious activity reporting procedures.

Various pieces of legislation such as the Collective Investment Undertakings Act, the NBFIRA Act, the Insurance Industry Act and the Financial Intelligence Act were analysed for purposes of developing/reviewing the risk universes of the businesses.

In the year 2019, the BIHL board officially approved the AML/CFT and P Policy. This document outlines the policy on AML/CFT and P matters. The policy is designed pursuant to the obligations placed on BIHL by the AML/CFT and P legislative framework in Botswana. In particular, our policy framework is designed to comply with provisions of the Financial Intelligence Act (2009) and Financial Intelligence (Amendment) Act (2018) and the NBFIRA Act (2008) and their respective regulations as a minimum standard. The policy adheres to international standards as espoused by the Financial Action Task Force 40 Recommendations, United Nations and African Union Conventions and Protocols as it relates to financial groups.

Considered an integral part of the decision-making process in BIHL, the primary objective of BIHL's strategy with respect to risk management is to optimise BIHL's risk-adjusted return on capital and embedded value. To ensure an optimal return, BIHL determines an acceptable level of risk in conducting its operations.

The role of risk management is therefore to enhance the organisation's ability to manage, though not necessarily avoid or eliminate every risk and to ensure that the overall risk profile remains within approved risk limits and tolerance limits. This may involve various risk responses or combinations thereof, namely acceptance, mitigation and/or avoidance of the risk. The processes in place provide reasonable, but not absolute, assurance that the risks are adequately managed. The risk appetite and tolerance limits have been in place during this financial year and cover all material business activities of BIHL.

The strategy is regularly reviewed and updated where necessary, evaluating risk as a combination of impact and likelihood. Amendments to risk policies require board approval. The assessment of the various risks in BIHL is evaluated on both a quantitative and a qualitative basis. Risks characterised by a low likelihood of occurrence but with a potentially catastrophic impact, are regarded as unacceptable and are avoided as far as practically possible.

Business continuity management plans have been put in place to ensure that the business is resilient. The risk assurance framework provides tools to define the risks and the level at which risks should be reported in terms of the risk escalation matrix.

The compliance framework outlines the compliance process and responsibilities. Policies, procedures and methodologies have been adopted and implemented throughout BIHL that enable effective identification and management of risks. All processes and procedures have been designed to provide reasonable assurance that risks are adequately managed.

GOING CONCERN

The board has considered and recorded the relevant facts and assumptions and has concluded that BIHL will continue as a going concern during the 2022 financial year. There are no specific material risks or uncertainties regarding future cash flows and operational results which would impact the company's continuity for the period of 12 months after the preparation of the report.

Their statement in this regard is also contained in the statement of directors' responsibility for the annual financial statements.

KING IV™

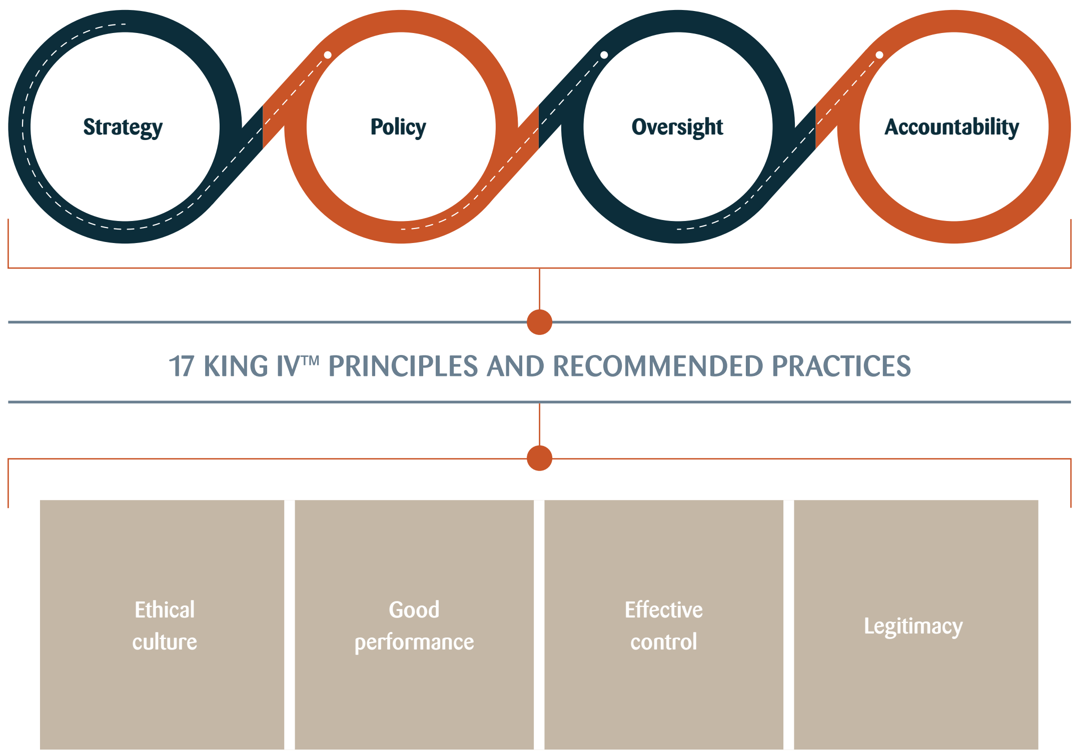
With the updated King IV™, organisations have had to make adjustments to align to best practice. BIHL has been very proactive on this, with the result being that we are a lot further down the road to King IV™ alignment than many other organisations of similar size.

At the BIHL Group, the application of best practice corporate governance protocols and processes has been a practice for many decades. The King IV™ guidelines have been, for the most part, applied by our group. King IV™ aims to better align and modernise the codes to global best practice, and to align it to shifts in the approach to capitalism which are towards inclusive, integrated thinking that seek long-term sustainability of the organisation over short-term gains.

It further takes into account specific corporate governance developments in relation to effective governing bodies, increased compliance requirements, new governance structures, emerging risks and opportunities from new technologies and new reporting and disclosure requirements e.g. integrated reporting.

While King IV™ is voluntary, it is envisaged that it will be applicable to all organisations irrespective of their form or manner of incorporation. We are happy to disclose that we are well down the path of alignment to King IV™. We have taken this position because of our strong belief that a sustainable organisation is one that is well run, profitable and also plays its part within the organisations and ecosystems it operates in. For that reason, best practice in governance will always be a priority for us at BIHL. Refer to pages 90 to 95 for our application of King IV™.

Governing body responsibilities at BIHL



BIHL INTEGRATED ANNUAL REPORT 2021

OUR BOARD OF DIRECTORS

Mahube Chilisana Mpugwa (55)

Board Acting Chairman
Board member – Bifm
Nationality: Motswana
Appointed: June 2010

MBA (Strathclyde University), BA (Hons) (University of Windsor, Canada)

Skills brought to BIHL: Board experience, Government relations and strategic communications

Mahube is CEO of Kwa Nokeng Oil. He was previously the executive director and General Manager of Puma Energy Botswana (formerly BP Botswana) from 2008. Prior to that, he held several positions in BP Botswana and BP South Africa where he was responsible for strategic communications and Government relations. He also worked for the Botswana Development Corporation.

Mahube is a director of Master Timber Proprietary Limited, Colmar Proprietary Limited, Woolworths Botswana and BSE-listed Shumba Energy.

He was appointed as Acting Chairman with effect from 1 January 2022.

Catherine Lesetedi (55)

Group Chief Executive Officer
Nationality: Motswana
Appointed: March 2016

BA Statistics and Demography (University of Botswana), Management Development Programme (UCT Graduate School of Business), Advanced Insurance Practice, Diploma in Insurance Studies (UNISA), Sanlam Executive Leadership Programme (GIBS), AIISA Associate

Skills brought to BIHL: Board experience, entrepreneurship, finance, insurance and investment

Catherine first joined BIHL Group in June 1992 as a supervisor and was subsequently promoted to the position of Assistant Manager in 1998 and later Divisional Manager in 2000. She spent three years with AON Botswana between 2004 and 2007 as Senior Accounts Executive and then General Manager of Life and Employee Benefits before returning to Botswana Life as Head of Corporate and High Value Business. In 2010, she was appointed Acting CEO and then CEO of Botswana Life, a position she held until February 2016 when she was appointed to her current board position.

Catherine serves on the boards of BIHL, FSG, Bifm Capital Investments Fund 1, BIC, Nico Holdings PLC, Sanlam Namibia and Letshego.

Kudakwashe Mukushi (46)

Group Chief Financial Officer
Nationality: Zimbabwean
Appointed: April 2019

Chartered Financial Analyst Charterholder, Fellow (Association of Certified Chartered Accountants)

Skills brought to BIHL: Board experience, banking, life insurance, pension funds, reinsurance, retail and energy solutions

Kudakwashe joined BIHL Group in 2013 as the CFO of Botswana Life and was promoted to the position of group CFO in April 2017. He has over 19 years of experience across various industry sectors including banking, reinsurance, pension funds, life insurance and the retail and energy sectors. This gives him a broad view to strategy and business management.

Kudakwashe represents the BIHL Group on various boards and board committees in investee companies.

Legend

Executive	
Independent non-executive	
Non-executive	
Board member	

Audit and risk committee	■
Investment committee	●
Nominations committee	▲
Human resources committee	⬟
Independent review committee	✱

Andrew Willis Cartwright (62)

Board member – Botswana Life
Nationality: South African
Appointed: May 2019

BBusSci (Cape Town), Senior Management Programme (Stellenbosch), Old Mutual Leadership Programme (London Business School), Financial Planning Institute, Fellow of Institute and Faculty of Actuaries (UK), Fellow of Actuarial Society of SA, Fellow Institute of Actuaries (India)

Skills brought to BIHL: Board experience, client services, group schemes, insurance pricing and risk management

Andrew's influential career at Old Mutual began as a Corporate Planning assistant. He became a product development actuary responsible for new product development and support for the retail middle income segment and later Customer Solutions Executive responsible for finance, customer offerings, new initiatives and risk management. As Chief Operating Officer for Old Mutual – Group Schemes, he was responsible for risk management, IT and client services.

He served on various industry and professional bodies in both South Africa and India.

Currently, Andrew volunteers at LEAP science and maths schools and is assisting with an insurance start-up.

Chandrakant Chauhan (59)

Board Chairman – Botswana Life
Nationality: Motswana
Appointed: April 2009

BAcc (Hons) (University of Zimbabwe), ACA (England and Wales) and ACA (Botswana)

Skills brought to BIHL: Board experience, entrepreneurship, finance and investment

Chandra is the Group Managing Director of Sefalana Holding Company Limited, a listed company on the BSE, having been appointed to its board in 2003 and as its Group Managing Director in July 2004. He is also a director of various other companies.

Chandra is a chartered accountant, successful entrepreneur and respected businessman who has been credited with turning around and restructuring Sefalana, whose market capitalisation has increased from P64 million in 2004 to just over P2,26 billion under his stewardship.

He is a naturalised Botswana citizen and was appointed to the BIHL board on 20 April 2009.

John Hinchliffe (65)

Board Chairman – Bifm
Nationality: British
Appointed: June 2010

BA (Econ) Honours Degree (Manchester University), Fellow (BICA), Fellow (Institute of Chartered Accountants in England and Wales)

Skills brought to BIHL: Board experience, consulting and finance

John Hinchliffe heads John Hinchliffe Consultants, an accounting and consulting practice in Gaborone. He was appointed to the BIHL board on 1 June 2010.

He is also a director of various other organisations, including Development Securities Proprietary Limited, Nsenya Proprietary Limited, Portion 84 Mokolodi Sanctuary Proprietary Limited, Botswana Insurance Company Limited, Mokolodi Utilities Proprietary Limited and Camphill Community Trust. John began his career as an accountant at Coopers and Lybrand in London, before being seconded to the firm's Botswana office in 1982. Thereafter, he worked for two other Botswana companies before establishing his own consultancy in Gaborone. He then joined DCDM Botswana, a multi-disciplined professional services firm, as Managing Director before re-establishing his consulting firm in 2005.

He is the Chairman of the board of Bifm and is a member of the BIHL audit committee. John is also the Chairman of the audit and risk committee of BIC, a member of the BIC board, Chairman of Legal Guard and a member of the Legal Guard audit committee. He has a BA (Econ) Honours degree from Manchester University and is a Fellow of BICA as well as a Fellow of the Institute of Chartered Accountants in England and Wales.

OUR BOARD OF DIRECTORS continued

Robert Dommisse (53)
Board member – Bifm and Bifm Unit Trust
Nationality: South African
Appointed: December 2020

BAcc Hons, MBA cum laude (Stellenbosch), CA(SA)

Skills brought to BIHL: Board experience, financial, insurance and accounting

Robert has more than 25 years' experience in the financial services industry. He is currently the Chief Executive of the life insurance vertical in Sanlam Pan Africa, consisting of 23 life insurance businesses and a number of asset management and associated credit businesses across the African continent.

He is also a member of the Financial Planning Institute.

Lieutenant General Tebogo Carter Masire (66)
Board member
Nationality: Motswana
Appointed: August 2015

Diploma in Science (Troy State University), BSc (Troy State University), MBA (University of Southern Queensland, Australia)

Skills brought to BIHL: Board experience and leadership

Tebogo is the former Commander of the Botswana Defence Force. He is one of the founding members of the Southern African Development Community standing aviation committee and also a founding board member of the Civil Aviation Authority of Botswana.

Tebogo serves as the Chairman on the Air Botswana board, Chairman of the BSE Limited as well as a board member of House Maintenance, BelServest and THC Foundation. He is also a member of the Vision 2036 Council and a patron of the Botswana Sports Foundation Trust.

Nigel Suliaman (55)
Board member – Bifm and Bifm Unit Trust
Nationality: South African
Appointed: June 2020

BCom (Accounting) (University of Cape Town), CA(SA), CFA, Program for Management Development (Harvard Business School)

Skills brought to BIHL: Board experience, financial, insurance and accounting

Nigel is a chartered accountant with over 30 years' work experience. He currently holds the position of Portfolio Manager at Sanlam Investment Management.

Kobus Vlok (62)
Board member – Botswana Life
Nationality: South African
Appointed: June 2019

BCom (University of Pretoria), MBL in Strategic Planning and Business Leadership (University of South Africa), Post Graduate and Advanced Post Graduate Diploma in Financial Planning (University of Free State)

Skills brought to BIHL: Board experience, life distribution, financial and research

Kobus is Sanlam's emerging markets Executive of Distribution Support, a position he has held since January 2019. His role includes providing life distribution to all the Africa businesses in the Sanlam Emerging Markets cluster.

Kobus has over 25 years' experience as the head of distribution channels and divisions in the South African financial services industry. He has served on the boards of public and private companies in life insurance, linked investments and unit trusts, health insurance, home loans, distribution services and brokerage businesses in various capacities such as executive director, non-executive director and Chairman.

Kobus has previously worked for MCIS Insurance Berhad (Sanlam Life Insurance company in Malaysia) as CEO and for Sanlam Personal Finance as Chief Executive of Sanlam Personal Finance distribution. He has also been the executive director of Sage Life Limited as well as the Senior Personal Research Officer of Standard Bank Group South Africa.

BIHL INTEGRATED ANNUAL REPORT 2021

OUR MANAGEMENT TEAM

Catherine Lesetedi (55)
Group Chief Executive Officer
Nationality: Motswana

Refer to page 84 for full CV.

Kudakwashe Mukushi (46)
Group Chief Financial Officer
Nationality: Zimbabwean

Refer to page 84 for full CV.

Ronald Samuels (53)
Botswana Life Chief Executive Officer
Nationality: South African

PG Dip in Management Practices (University of Cape Town and Melbourne), Management and Senior Management Development Programmes (Stellenbosch Business School), Executive Leadership Development Programme (GIBS Business School), Executive MBA (University of Reading, UK, MGIMO and Russia)

Ronald was appointed CEO of Botswana Life in November 2018. Prior to this, he has held various senior leadership positions within the financial services sector over the past 25 years, starting in distribution at Old Mutual before joining the Sanlam Group in 2000.

After being appointed as Sanlam's Provincial Manager for the Western Cape, he held numerous senior positions within the group over the years including Head of Sanlam Connect, General Manager of Sanlam Employee Benefits, Managing Director of FIN Q Financial Services (wholly-owned by Sanlam), General Manager Broker Division and CEO of Sanlam Trust.

He also served on various boards (Sanlam Trust, Sanlam Wealth Smiths and Sanlam Glacier) during this period. He currently serves on the boards of Botswana Life and that of the BIHL Trust.

Neo Bogatsu (48)
Bifm Chief Executive Officer
Nationality: Motswana

BCom (Accounting) (University of Botswana), MBA (University Of Chicago Booth School Of Business), FCCA, BICA

Neo joined Bifm in 2011 as Chief Finance Officer, and was later promoted to the position of CEO.

Prior to joining Bifm, she was with Barclays Bank of Botswana for more than 10 years, working in the finance and business analytics departments, and holding different positions from middle to senior management level. She started her career with Ernst & Young in 1996, where she trained and qualified as a chartered accountant.

In addition to her role as CEO of Bifm, she serves as a director on various boards of companies in different industries, including financial services, property management and development and education.

Thomas Masifhi (56)
Group Executive Head of Business Development and Stakeholder Management
Nationality: Motswana

Diploma in Sales and Marketing Management (Damelin Business School), MDP (University of Stellenbosch), ICBS in Insurance (IISA), EDM (LIMRA), Diploma in Insurance (LCII), Associate (Insurance Institute of South Africa), Post Graduate Certificate in Enterprise Risk Management (BAC), Managing Managers for Results (GIBS)

Thomas joined the BIHL Group in June 1992 as an insurance broker with Botswana Life. He left to become the Broker Manager at Southring Insurance Brokers in 1994 and later registered his own independent insurance agency. In 1997, he returned to Botswana Life as Regional Sales Manager, Senior Manager Operations, Head of Business Support and Head of Client Services and Business Support before being appointed to head the new LifeRewards and loyalty programme business unit.

He was appointed to his current position in February 2017.

He also serves on the committees of various sporting organisations such as the Botswana Football Association.

BIHL INTEGRATED ANNUAL REPORT 2021

KING IV™ APPLICATION REGISTER

Principle from King IV™	Application of the principle
Principle 1 The governing body should lead ethically and effectively	The board is responsible for BIHL's performance by steering and setting the direction for the realisation of BIHL's core purpose and values through its adopted strategy. The board performs its duties in good faith and in the best interests of BIHL and is committed to actively promoting BIHL as a transformed, inclusive, vibrant and globally competitive financial sector company. In addition to continuously practising and demonstrating effective leadership, the board possesses the necessary skills and competencies to fulfil and discharge its duties as the governing body of BIHL in an ethical manner. The board's role and responsibilities are outlined in BIHL's Constitution and the board charter. Furthermore, the members of the board act in good faith and in the best interests of BIHL and all its stakeholders. It executes its responsibility and accountability for steering and setting the strategic objectives of the company by approving policies and procedures, overseeing the monitoring and execution thereof by management as well as ensuring accountability of organisational performance. The board charter and its annual work plan, which are both reviewed on an annual basis, guide the board in a structured manner to ensure that each of its core deliverables are attended to. The board charter also outlines the process for policies and practices on board matters such as dealing in securities, the declaration of conflicting interests and matters which are delegated to management. The board, through the office of the group Company Secretary, duly considers and deliberates on declarations at every meeting when there is a conflict of interest identified. BIHL's directors, its executives and employees are, furthermore, prohibited from dealing in BIHL securities during specified periods. The group Company Secretary regularly informs directors, executives and employees of the regulatory requirements relevant to insider trading and advises them of closed periods.
Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture	The BIHL Group abides by tight principles in ensuring that business is conducted in a responsible manner. During the period under review, the board reviewed the Code of Ethics to ensure it is still relevant in terms of addressing any emerging ethical risks including issues of dealing with price-sensitive information. An external service provider has been engaged to manage the group's hotline where issues of breach are anonymously reported. Through the human resources committee, the group carried out a culture survey among staff to gather insights and ensure all aspects of culture are aligned at group level. Additional information on ethical leadership is available on page 70 of this report.
Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	The board acts as the custodian of corporate governance for the group and manages the interrelationships with management, the shareholders and other stakeholders of the group in accordance with sound corporate governance principles. The board ensures that BIHL is and is seen to be a responsible corporate citizen by having regard not only to the financial aspects of the business but also to the impact that business operations have on natural resources and the society within which it operates. The board, through the audit and risk committee, continues to ensure that the group complies with all issues of regulation. The policies and standard operating procedures continue to be revised to ensure relevance and alignment with the law. Through its human resources committee, the board ensures that issues of employment equity, fair remuneration, health and safety are continuously addressed. The key focus areas during the reporting period were to ensure that employees are well taken care of to ensure that transmission of COVID-19 at the workplace was kept to a minimum. The board also ensured that employees' jobs are protected irrespective of the difficult trading conditions.
Principle 4 The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process	BIHL's short-, medium- and long-term strategy is delegated to management and approved by the board having considered that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management. The board provides ongoing oversight and monitors, with the support of its committees, the implementation and execution of the group's strategy within agreed timelines. It also ensures that BIHL's core purpose, risks and opportunities that the company is exposed to, its strategy, business model, performance and sustainable development are all inseparable in creating value for all its stakeholders on a continuous basis. In managing risk, the board, through its audit and risk committee, has implemented a combined assurance model. The purpose of the model is to give the board an idea of the type of assurance for major processes and risks in the organisation and to also provide the board with the comfort that the business has enough assurance providers in place to mitigate a particular risk. The board is satisfied that it has fulfilled its primary role and responsibilities in relation to corporate governance in alignment with the approved terms of reference.
Principle 5 The governing body should ensure that reports issued by the company enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects	The board, through the audit and risk committee, ensures that the necessary controls are in place and that the requisite assurance is provided, where necessary, to verify and safeguard the integrity of BIHL's integrated annual report including any other disclosures. In this regard, the board continues to be accountable for overseeing BIHL's response to applicable disclosure requirements. The board ensures that through the integrated annual report, BIHL's response to the King IV™ 'apply and explain' disclosure requirements, BIHL's annual financial statements, as well as any other relevant information to stakeholders, are published as is appropriate. In addition, the current and future outlook information for the BIHL Group is contained in the integrated annual report.
Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation	The board operates in accordance with clearly defined terms of reference which are regularly reviewed to guide its effective functioning. The terms of reference are detailed in the board charter and define among other things, its role, responsibilities, membership requirement and procedural conduct. The board, as well as any director or committee member, may obtain independent, external professional advice at the company's expense concerning matters within the scope of their duties. Similarly, the directors may request documentation from management and set up meetings with management as and when required. The number of meetings held during the year and attended per each member are disclosed on page 73. The board carried out annual assessments on its effectiveness and is satisfied that it has fulfilled its responsibilities in accordance with its charter.

BIHL INTEGRATED ANNUAL REPORT 2021

KING IV™ APPLICATION REGISTER continued

Principle from King IV™	Application of the principle
Principle 7 **The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively**	The board assesses the adequacy of its composition annually to ensure that it is still fit for purpose, has the right balance of skills, experience, diversity, independence and knowledge and that it can still effectively discharge its role and responsibilities. A process of formulating a policy that details procedures for recruiting directors and issues which promotes board diversity is being developed and will be concluded during the year. The majority of members of the board are non-executive independent directors. The group CEO and the group CFO are the executive members of the board. Independent members of the board are allowed to serve on the board for nine years and thereafter, they are assessed for independence every two years and can serve up to 13 years upon which they retire. During the course of the year, two non-independent members of the board retired due to structural changes at BIHL Group which saw those members deployed elsewhere in the business. At least one-third of non-executive directors should retire by rotation at the AGM or other general meetings. The retiring directors may be re-elected, provided they are eligible and they offer themselves up for re-election. Rotation of directors is structured so as to retain valuable skills, to have continuity of knowledge and experience and to introduce persons with new ideas and expertise. The Chairman of the board is an independent non-executive member. The Chairman's role and responsibilities are documented in the board charter and the tenure of the Chairman is aligned to those of independent members. The board has appointed an independent non-executive member as the Lead Independent member.
Principle 8 **The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties**	The board has established the following committees to assist with particular roles and responsibilities in order to achieve its objectives. The committees are governed by their own charters which deal with the composition of each respective committee, its overall role and responsibilities, decision-making process, how the committee reports to the board, meeting procedures and evaluation of committee performance. The following are the current committees of the board: • Audit and risk committee • Investment committee • Human resources committee • Nominations committee, and • Independent review committee. The committees meet at least quarterly. The Chairman of each of the committees or a member nominated by the Chairman makes a presentation to the board on issues submitted for discussion at the committee meetings. The committees are appropriately constituted and each member is appointed by the board as per the recommendations made by the nominations committee.
Principle 9 **The governing body should ensure that the evaluation of its own performance and that of its committees, its Chairperson and its individual members, support continued improvement in its performance and effectiveness**	The effectiveness of the performance of the board and respective committees is assessed annually by the group Company Secretary through a survey. The results of the survey are compiled and shared with the Chairman. A consolidated summary of the results of the process is reported to the full board by the Chairman. If a deficiency has been identified, a plan is developed and implemented for the board to acquire the necessary skills or behaviour patterns. This also forms the basis for the group to identify key objectives for the effective functioning of the board for the subsequent year. The board sets aside time for consideration, reflection and discussion of the results of these formal performance evaluations as part of its consideration of its annual work plan. The board is satisfied with the outcome of the board evaluation process that was conducted during the 2021 financial year. It has been confirmed that the board continued to operate effectively and efficiently in creating value for BIHL's stakeholders. Consensus has been reached on the continuous commitment, competence and experience exercised at board and committee level.

Principle from King IV™	Application of the principle
Principle 10 **The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities**	The board sets certain specific targets directed at achieving BIHL's goals and business objectives and an appropriate delegation of authority to the group CEO to ensure that the targets are achieved. The group CEO acts within the specific authorities delegated to her by the board. The board approves and regularly reviews the governance policy and framework and the top-level delegation of authority in terms of which matters are delegated to the group CEO. The board agreed to the manner in which the delegated authority is exercised by the group CEO which includes the development and implementation of the BIHL strategy. The group Company Secretary has been duly appointed by the board in accordance with the Companies Act. The board considers and evaluates the competence, qualifications and experience of the group Company Secretary annually and is satisfied that he is competent and has the appropriate qualifications and experience to fulfil his role and responsibilities. The group Company Secretary has a direct channel of communication to the Chairman of the board, while maintaining an arm's-length relationship with the directors as far as is reasonably possible. The role and responsibilities of the group Company Secretary are described in the board charter as well as summarised in the governance report.
Principle 11 **The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic direction**	The board ensures that governance of risk is done through formal processes and that the appropriate building blocks for risk management are put in place through the combined assurance model. The board ensures that the risk assessments that identify all risks are performed on an annual basis. Risk identification is defined by the BIHL risk assurance framework, which has been implemented to increase the probability of anticipating risks and ensure that management considers and implements appropriate risk responses. The board ensures continuous risk monitoring by management through receipt of quarterly reports on risk, assurances regarding the effectiveness of the risk management processes and by ensuring that there are processes in place to enable complete, timely, relevant, accurate and accessible risk disclosures to stakeholders. The board has delegated the responsibility to the audit and risk committee to oversee that the combined assurance model effectively covers BIHL's significant risks and material matters through a combination of the following assurance service providers and functions: • First line functions that own and manage risks • Specialist functions that facilitate and oversee risk management and compliance • The internal auditor, forensic fraud examiners and auditors and statutory actuaries, and • Independent external assurance service providers such as the external auditor.
Principle 12 **The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives**	IT has become an integral part of the business in the sense that information systems are the core of the business of the group. As a strategic asset of the group, IT presents significant risks which are governed and controlled. The board therefore exercised its duties during the year under review to ensure that prudent and reasonable steps are taken in respect to the governance of IT. The board, through the audit and risk committee, ensured that information systems are aligned with the long-term strategic direction of the group, delegating the responsibility for the implementation of an IT governance framework to management and by monitoring and evaluating significant IT investments and expenditure. The board has satisfied itself that IT governance is effective and that due care and diligence has been exercised through an IT governance framework. The framework was reviewed for its effectiveness during the year; it was found to be relevant.

BIHL INTEGRATED ANNUAL REPORT 2021

KING IV™ APPLICATION REGISTER continued

Principle from King IV™	Application of the principle
Principle 13 The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen	The board, through the audit and risk committee, reviewed the group's compliance with mandatory corporate governance principles and the Companies Act, BSE Listings Requirements, King IV™ and all applicable laws and adopted non-binding rules, codes and standards. The committee evaluated the appropriateness and effectiveness of the corporate governance structures, processes, practices and instruments and the approval framework and found them to be working satisfactorily. The group's design and implementation of sound compliance management practices and procedures are aimed at detecting and mitigating compliance risks. The audit and risk committee receives regular reports on compliance-related matters through the group CFO who is suitably skilled and experienced.
Principle 14 The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of its strategic objectives and positive outcomes in the short, medium and long term	The board is ultimately responsible and accountable in terms of ensuring that BIHL remunerates fairly, responsibly and transparently for the achievement and promotion of BIHL's strategic objectives over the short, medium and long term. BIHL's remuneration philosophy and policy support the group's strategy by incentivising the behaviour required to meet and exceed predetermined strategic goals. Both short- and long-term strategic objectives are measured and rewarded. This blended approach mitigates excessive risk taking and balances longer-term strategic objectives with short-term operational performance. The human resources committee has been delegated this responsibility. The human resources committee is responsible for matters relating to developing an appropriate remuneration policy, monitoring the implementation of the policy and regularly reviewing the suitability of the policy. Over and above matters relating to reward, matters pertaining to the attraction and retention of skilled resources, the fit and proper requirements relevant to the status of directors and the management of material human resources-related risks are covered in the policy and the human resources committee charter.
Principle 15 The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports	The board assumes overall responsibility for assurance and the integrity of information reported. The audit and risk committee is delegated the responsibility for overseeing the group's approach towards combined assurance in order to ensure that it incorporates and optimises the various assurance services and functions across the business. This includes, holistically, that the requisite assurance objectives of effective internal control and integrity of reported information are achieved. The audit and risk committee ensures that appropriate assurance that covers the significant risks and material matters is obtained. This is done through a combination of reporting by first line management functions that own and manage risks, specialist risk functions that oversee risk management and compliance as well as independent assurance providers such as internal and external audit. The board is responsible for the quality and integrity of the information disclosed in BIHL's integrated annual report. The board, with the support and assistance of the audit and risk committee, satisfies itself that the quality and integrity of the combined assurance model is effective and sufficiently robust. The latter continues to assist and enable the board to place reliance on the group's response to combined assurance, which underpins the statements that the board makes concerning the integrity of BIHL's external reports. Based on the results of the review of BIHL's systems of internal control, risk and opportunities management, the audit and risk committee concluded during the reporting period that BIHL's systems of internal control and risk management were effective.

Principle from King IV™	Application of the principle
Principle 16 In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time	The board assumes responsibility for the governance of stakeholder relationships by setting the direction for how stakeholder relationships should be approached and conducted by BIHL. The group recognises that the sustainability of the business is dependent on successful interaction with its stakeholders. A stakeholder engagement plan sets out the strategies and objectives behind the group's engagement with material stakeholders, with an important objective that the company be recognised as a responsible corporate citizen. The board has delegated the duty to proactively deal with stakeholder groupings and, where necessary, to provide feedback to management. The board considers the balance of engagement with each stakeholder grouping and endeavours to achieve a climate of respect with constructive debate. Interaction with BIHL stakeholders happens during the normal course of business at multiple levels across the group and management strives to resolve any disputes with its stakeholders effectively and expeditiously.

BIHL INTEGRATED ANNUAL REPORT 2021

MR ANDREW CARTWRIGHT
Audit and risk committee Chairman

AUDIT AND RISK COMMITTEE REPORT

Members:
Andrew Cartwright *(Chairman)*
Chandrakant Chauhan
John Hinchliffe
Philip Van Rooijen

The subcommittee has a formal written charter which sets out its responsibilities and is reviewed annually. The internal and external auditors attend these meetings and have unrestricted access to the Chairman of the committee. The audit and risk committee met four times during the financial year. Meeting attendance is set out on page 73.

The main responsibility of the audit and risk committee is to assist the board in discharging its responsibilities under the Companies Act (CAP 42:10), the NBFIRA Act, other relevant legislation, and the common law, with regard to the business of the BIHL Group. It monitors financial controls, accounting systems and reporting, compliance with legal and statutory requirements, evaluation and the management of risk areas and internal control systems, and the effectiveness of the external and internal auditors. The subcommittee also evaluates the BIHL Group's exposure and response to significant risks, including sustainability issues.

AREAS OF FOCUS DURING 2021

The subcommittee focused on the following key areas:

Compliance management

- Compliance with AML/CFT and P requirements across the group's subsidiaries. The continued focus on AML/CFT and P across Africa and particularly in Botswana has meant that the BIHL Group, being the largest player in the insurance space, has had to ensure that the businesses in its stable are compliant with legislation. Processes have been put in place to ensure that all new policies written are compliant with requirements. The committee is pleased to note that the main group companies were part of the companies reviewed by the Financial Action Task Force representatives to determine the effectiveness of AML/CFT and P processes and the repealing of the grey listing suggests that our companies received a positive review.
- Compliance with the New Retirement Funds Act: The committee reviewed the progress that management has made in setting up a separate administration company to administer the Retirement Annuities Fund. In addition, good progress has been made to register the retirement fund with NBFIRA; the committee is satisfied that there is sufficient effort to comply with the requirements, however, final approvals by the Regulator are still awaited.
- Review of the group's compliance maturity status: In 2021, management utilised the compliance risk management plans to focus on high-risk areas to ensure that the group adheres to its commitment to a zero-tolerance culture to non-compliance. Various action plans were pursued to improve the risk maturity of our businesses.

Risk management

During the year, the subcommittee reviewed:

- The risk profiles and risk appetite reports of the various subsidiaries
- The ratings and the effectiveness of mitigating factors through quarterly monitoring of the key risks that faced the group
- Unlisted investments with a focus on credit assets which required attention from a risk management perspective
- Management's strategy and actions to improve risk maturity in subsidiaries and associates
- Special consideration was given to the significant impact that the COVID-19 pandemic had on the level of claims for the life insurance segment. The committee considered the impact of the high claims on the group's cash flows resulting in a decision not to declare an interim dividend to enable the business to pay claims and rearrange the investment portfolio. The committee is comfortable that this risk has been managed effectively and has supported management's proposal to declare a final dividend for the year 2021.

Audits

- Botswana Accountancy Oversight Authority (BAOA) audit – The committee continued to oversee the implementation of the governance recommendations by BAOA following its audit in 2019 and significant progress has been made to date, for example, the Chairman of the committee is now an independent non-executive board member.
- The committee considered various audit reports from the internal and external auditors and is satisfied that the group has a healthy control environment. The key audit matters highlighted by the external auditor during the year include the following:
  - Valuation of policyholder liabilities under insurance contracts
  - Valuation of material investments in associates
  - Valuation of investment property and investments in unlisted property funds – special emphasis was placed on the impact of COVID-19 on the valuations, and
  - Impact of COVID-19 on mortality rates and proposed mitigation.

Effectiveness of the finance team

The committee considered the effectiveness of the finance team having discussed the matter in closed sessions with both the internal and external auditors at its meetings. The committee is satisfied that the CFO, Kudakwashe Mukushi, remains qualified and is discharging his duties effectively. In addition, the committee is satisfied with the level of expertise and effectiveness of the finance department.

The subcommittee is satisfied that management has dealt with these matters and other material matters appropriately in the annual financial statements.

Andrew Cartwright
Audit and risk committee Chairman

BIHL INTEGRATED ANNUAL REPORT 2021

ACTIVITIES OF THE OTHER BOARD COMMITTEES

Refer to pages 96 and 97 for the audit and risk committee report.

Nominations committee		Activities during 2021	Focus for 2022
Members Chandrakant Chauhan *(Chairman)* Batsho Dambe-Groth	The nominations committee meets on an *ad hoc* basis to appoint, identify and evaluate suitable candidates for possible appointments to the board. The subcommittee makes recommendations to the board regarding the appointment of non-executive and independent non-executive directors. The subcommittee regularly reviews the structure, size and composition of the board and its committees and makes recommendations to the board. The subcommittee meets as and when appropriate.	• Consideration of the appointment of suitable candidates as members of the board and subcommittees including the board Chair • Consideration of the appointment of suitable candidates as board members of group subsidiaries	• Ensuring balanced skillsets in light of the composition of the board and committees • Appointment of board members of group subsidiaries to replace those who are due to retire

Independent review committee		Activities during 2021	Focus for 2022
Members John Hinchliffe *(Chairman)* Chandrakant Chauhan	In order to enhance the governance structures within the BIHL Group, and any other matters referred to it by the board or any of its subcommittees, the board established an independent review committee. The committee is responsible for reviewing all related party transactions. The committee meets as and when appropriate and has adopted a formal charter that is reviewed on an annual basis.	• Activities during 2021 • Assessment of prospective related party transactions	• Focus for 2022 • Observation of best practice in light of related party transactions

Human resources committee		Activities during 2021	Focus for 2022
Members Kate Maphage *(Chairman)* Batsho Dambe-Groth Mahube Mpugwa	The subcommittee is responsible for monitoring and advising on the status of BIHL's human and intellectual capital and the transformation processes regarding employees. In particular, the subcommittee approves executive appointments and reviews succession planning. The subcommittee is also responsible for the remuneration strategy within the BIHL Group and for the approval of guidelines for incentive schemes and the annual determination of remuneration packages for BIHL's executive committee. The subcommittee takes cognisance of local and international industry benchmarks, ensures that incentive schemes are aligned with good business practice and that a robust performance management culture is in place. It also makes recommendations to the board regarding directors' remuneration. The CEO, the subsidiary CEOs and the Executive Head: People Management attend the meetings by invitation. Non-executive directors do not participate in an incentive bonus nor do they receive share options. The subcommittee meets on a quarterly basis and has a formal charter that sets out its responsibilities and is reviewed annually.	• Ensuring adherence to best practice in light of corporate governance for tenure of members of the board • Fostering training of members of the board and committees	• Talent management • Succession planning of human resources within the group • Skills development of board members and committee members

05 ANNUAL FINANCIAL STATEMENTS

Our external auditor, Ernst & Young, has independently provided assurance on the fair presentation of these annual financial statements, which were prepared in terms of International Financial Reporting Standards (IFRS).

DIRECTORS' REPORT

The board of directors of Botswana Insurance Holdings Limited (BIHL or the company) has pleasure in submitting its integrated annual report and the audited annual financial statements of the company and its subsidiaries for the year ended 31 December 2021.

NATURE OF THE BUSINESS

The company and its subsidiaries (the group) underwrite all classes of long-term insurance, administer deposit administration schemes, manage investments and administer life and pension funds. It also provides funeral services and microlending through its associated companies. The company is listed on the Botswana Stock Exchange (BSE).

RESULTS FOR THE YEAR

The group reported a net profit, after tax, for the year to 31 December 2021 of P393 million (2020: P538 million). The results worsened over last year due to excess mortality due to the COVID-19 pandemic. Shareholders' equity as at 31 December 2021 was P3,351 billion (2020: P3,010 billion). Further details regarding the group's results and prospects are included in the performance review in the integrated annual report.

STATED CAPITAL

The issued and fully paid share capital as at 31 December 2021 was 282 370 652 ordinary shares (2020: 282 370 652).

DIVIDENDS

A gross interim dividend of nil thebe (2020: 44 thebe) per share was declared during the year. The directors propose a final dividend of 71 thebe (2020: 65 thebe) per share, bringing the total dividend for the year to 71 thebe per share (2020: 109 thebe per share).

DIRECTORS' SHAREHOLDINGS

The aggregate number of BIHL shares held directly or indirectly by directors of the company was 467 466 (2020: 339 433). Details of the holding of these shares are disclosed in note 20 to the annual financial statements.

EVENTS SUBSEQUENT TO THE REPORTING DATE

Refer to note 29 to the annual financial statements for the disclosures on events subsequent to the reporting date.

DIRECTORATE

M Mpugwa (*acting Chairman*)
B Dambe-Groth (*resigned December 2021*)
C Chauhan
J Hinchliffe
K Vlok
A Cartwright
Lieutenant General T Masire
N Suliaman
R Dommisse
K Mukushi *(Group Chief Financial Officer)*
C Lesetedi *(Group Chief Executive Officer)*

COMPANY SECRETARY AND REGISTERED ADDRESS

H Ndzinge
Plot 66458, Block A
Fairgrounds Office Park
Gaborone, Botswana

INDEPENDENT AUDITOR

Ernst & Young
2nd Floor, 22 Khama Crescent
Gaborone, Botswana

STATUTORY ACTUARY

Edwin Splinter

BANKERS

Absa Bank of Botswana Limited
Bank Gaborone Limited
Bank of Baroda (Botswana) Limited
First Capital Bank Limited
First National Bank of Botswana Limited
Stanbic Bank Botswana Limited
Standard Chartered Bank Botswana Limited
Access Bank

DIRECTORS' STATEMENT OF RESPONSIBILITY

The directors of the group and company are responsible for the annual financial statements and all other information presented therewith. Their responsibility includes the maintenance of true and fair financial records and the preparation of annual financial statements in accordance with IFRS and in the manner required by the Insurance Industry Act, 2015 and the Companies Act (CAP 42:01).

The group and company maintain systems of internal control, which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of company assets. The directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the group or company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Our external auditor conducts an examination of the annual financial statements in conformity with International Standards on Auditing, which includes tests of transactions and selective tests of internal accounting controls. Regular meetings are held between management and our external auditor to review matters relating to internal controls and financial reporting. The external auditor has unrestricted access to the board of directors.

The annual financial statements set out on page 109 to 217 were authorised for issue by the board of directors on 2 March 2022 and were signed on their behalf by:

Mahube Mpugwa
Chairman (acting)

Catherine Lesetedi
Group Chief Executive Officer

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 109 to 217, 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.

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 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. 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. 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 policy. The assumptions that we consider requiring the most significant auditor's attention due to the impact on the life insurance actuarial valuations were: • Mortality, longevity, and morbidity • Persistency • Expenses • Risk discount rates and • Allowance for credit defaults. 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. 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 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. 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.	The following audit procedures, among others, were executed with the involvement of our internal actuarial specialists: • 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 information technology (IT) environment over the policy administration systems, together with the data extraction and conversion processes. • 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. • We assessed the methodologies used to derive assumptions against the latest actuarial guidance, legislation, regulatory, financial reporting requirements and approved group policy. • 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. • Where actuarial judgement has been applied, we assessed the justification provided by management by benchmarking to similar situations. • 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. • We assessed management's approach to allow for the impact of the COVID-19 pandemic on the assumptions including management's allowance 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. • 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. • 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 IFRS 4 *Insurance Contracts*.

INDEPENDENT AUDITOR'S REPORT continued

Key audit matter	How the matter was addressed in the audit
2. Valuation of the investment in associate – Letshego Holdings Limited (LHL) Using the discounted cash flow (DCF) method, LHL was valued at P1,428 billion in the current year, compared to P1,204 billion in the prior year. The carrying amount at 31 December 2021 was P1,330 billion (2020: P1,178 billion). The assessment of the impairment of LHL 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. The determination of the appropriateness of the macro-economic assumptions such as growth rates and risk discount rates used in the DCF model which is used to assess the potential impairment of the associate required significant judgement. The DCF is modelled by reference to future cash flow forecasts over a 10-year period. Evaluating management's assumptions and judgements required additional audit effort and the use of valuation specialists. During the year, changes were made to the growth rate assumptions and cash flows beyond five years were extrapolated using a 9% growth rate (2020 – 3%). The final DCF 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 matte 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.	The following audit procedures, among others, were executed with the involvement of our internal valuation specialists: • 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 cash flow 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. • We evaluated management's forecast of the Letshego group based on our understanding of the geographic locations in which the Letshego group operates. • We evaluated the cash flow projections used for valuation against the associate's most recent financial performance and assessed the inputs into the cash flow projections. • 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 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 pages 1 to 6 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.

BIHL INTEGRATED ANNUAL REPORT 2021

INDEPENDENT AUDITOR'S REPORT 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 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

Ernst & Young
Practising member:
Thomas Chitambo

Partner
Certified Auditor
Membership number: 20030022
Gaborone

8 March 2022

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2021

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
ASSETS					
Property and equipment	2	**183 232**	179 261	**3 391**	2 873
Intangible assets	3	**107 076**	99 089	**537**	784
Right-of-use assets	2.1	**8 112**	15 514	**6 000**	11 047
Investment property	4.4	**10 160**	10 160	**–**	–
Investments in associates and joint ventures	4.5	**1 972 698**	1 713 994	**266 711**	266 711
Long-term reinsurance assets	8.5	**10 855**	9 259	**–**	–
Interest in subsidiaries	4.5	**–**	–	**90 415**	112 858
Financial assets at fair value through profit or loss		**15 385 244**	14 489 435	**–**	–
Bonds (Government, public authority, listed and unlisted corporates)	4.1	**8 663 449**	9 282 087	**–**	–
Investment in property funds and companies	4.4	**1 173 325**	1 055 880	**–**	–
Equity investments (local and foreign)	4.2	**2 403 845**	2 042 429	**–**	–
Money market instruments	4.1	**3 144 625**	2 109 039	**–**	–
Loans at amortised cost	4.3	**31 957**	36 132	**–**	–
Insurance and other receivables	5	**280 725**	284 199	**443**	4 494
Tax receivable	17	**–**	–	**116**	382
Related party balances	20	**–**	–	**1 993**	30
Cash and cash equivalents	23	**137 418**	239 637	**24 768**	68 412
Total assets		**18 127 477**	17 076 680	**394 374**	467 591
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Stated capital	6	**154 936**	154 936	**154 936**	154 936
Non-distributable reserves	7	**395 716**	243 967	**35 434**	31 449
Retained earnings		**2 781 611**	2 585 714	**172 867**	240 612
Total equity attributable to equity holders of the parent		**3 332 263**	2 984 617	**363 237**	426 997
Non-controlling interests	10	**18 728**	25 228	**–**	–
Total equity		**3 350 991**	3 009 845	**363 237**	426 997
Liabilities					
Long-term policyholder liabilities	8	**10 444 306**	10 847 636	**–**	–
External investors in consolidated funds	9	**3 635 183**	2 519 241	**–**	–
Derivatives instrument	8.7	**42 366**	2 400	**–**	–
Deferred tax liability	11	**23 780**	19 521	**–**	–
Lease liability	2.2	**9 234**	16 858	**7 603**	12 568
Insurance and other payables	12	**616 587**	625 907	**23 534**	27 081
Tax payable	17	**3 441**	31 736	**–**	–
Related party balances	20	**1 589**	3 536	**–**	945
Total equity and liabilities		**18 127 477**	17 076 680	**394 374**	467 591

STATEMENTS OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
Revenue					
Net insurance premium income	13	**3 084 928**	2 879 625	**–**	–
Gross insurance premium income		**3 139 223**	2 936 655	**–**	–
Insurance premium ceded to reinsurers		**(54 295)**	(57 030)	**–**	–
Revenue from contracts with customers	13.1	**127 760**	108 935	**–**	–
Investment returns		**173 532**	296 787	**209 023**	415 793
Investment income	14.3	**74 149**	67 761	**207 455**	413 396
Interest income using the effective interest rate (EIR)	14.1	**4 467**	6 838	**1 568**	2 397
Other interest income	14.2	**1 050 615**	658 991	**–**	–
Fair value gains/(losses) from derivative instrument*	8.7	**39 966**	(3 410)	**–**	–
Fair value loss from external investors in consolidated funds*	14.4	**(23 007)**	(31 878)	**–**	–
Net loss from financial assets held at fair value through profit or loss	14.4	**(972 658)**	(401 515)	**–**	–
Total revenue		**3 386 220**	3 285 347	**209 023**	415 793
Net insurance and investment contract benefits and claims		**(2 277 887)**	(2 058 818)	**–**	–
Gross insurance benefits and claims	14	**(2 462 420)**	(1 689 071)	**–**	–
Reinsurance claims	14	**131 994**	39 240	**–**	–
Change in liabilities under investment contracts	8.1	**(349 195)**	(3 912)	**–**	–
Change in policyholder liabilities under insurance contracts	8.1	**403 330**	(403 534)	**–**	–
Change in contract liabilities ceded to reinsurers	8.6	**(1 596)**	(1 541)	**–**	–
Expenses		**(937 043)**	(819 020)	**(80 004)**	(31 559)
Sales remuneration		**(516 554)**	(424 194)	**–**	–
Administration expenses	16	**(417 915)**	(374 909)	**(56 962)**	(30 913)
Finance cost on leases (IFRS 16)	2.2	**(543)**	(861)	**(599)**	(646)
Impairment losses	16.2	**(2 031)**	(19 056)	**(22 443)**	–
Profit before share of profit of associates, joint ventures and other income		**171 290**	407 509	**129 019**	384 234
Profit on sale of subsidiary**	4.6	**–**	1 396	**–**	1 396
Share of profit of associates and joint ventures	4.5	**305 333**	257 268	**–**	–
Profit before tax		**476 623**	666 173	**129 019**	385 630
Income tax expense	17	**(83 886)**	(128 664)	**(13 223)**	(9 597)
Profit for the year		**392 737**	537 509	**115 796**	376 033
Profit attributable to:					
– Equity holders of the parent		**388 022**	531 999	**115 796**	376 033
– Non-controlling interests	10	**4 715**	5 510	**–**	–
		392 737	537 509	**115 796**	376 033
Earnings per share (thebe) (attributable to ordinary equity holders of the parent)					
– Basic	18	**140**	193		
– Diluted	18	**140**	192		

* *During 2021, management reviewed the presentation of the fair value movements in the income statement. As a result of the review, the presentation has been changed to disclose the fair value from external investors in consolidated funds and from the derivative instrument separately, which were disclosed under net gains/(losses) from financial assets held at fair value through profit or loss. To provide comparability, the prior year balances have been restated.*

** *The comparative (2020) profit on sale of subsidiary has been reclassified from total revenue to other income as it does not form part of the operations of the group.*

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
Profit for the year		**392 737**	537 509	**115 796**	376 033
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Exchange differences on translation of foreign operations	7	**125 130**	(70 212)	**–**	–
Total comprehensive income for the year		**517 867**	434 078	**115 796**	376 033
Total comprehensive income attributable to:					
– Equity holders of the parent		**513 152**	461 787	**115 796**	376 033
– Non-controlling interests		**4 715**	5 510	**–**	–
		517 867	434 078	**115 796**	376 033

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Stated capital P'000	Treasury shares P'000	Share-based payment reserve P'000	Capital reserve account P'000	Foreign currency translation reserve P'000	Consoli-dation reserve P'000	Total non-distributable reserves P'000	Retained income P'000	Total P'000	Non-controlling interest P'000	Total equity P'000
GROUP											
Balance as at 1 January 2020	154 936	(66 419)	96 471	401 158	(167 328)	(40 696)	223 186	2 561 131	2 939 253	23 597	2 962 850
Total comprehensive income	–	–	–	–	(70 212)	–	(70 212)	531 999	461 787	5 510	467 297
Profit for the year	–	–	–	–	–	–	–	531 999	531 999	5 510	537 509
Foreign currency translation	–	–	–	–	(70 212)	–	(70 212)	–	(70 212)	–	(70 212)
Share-based payment expense (note 7)	–	–	3 894	–	–	–	3 894	–	3 894	–	3 894
(Transfer to statutory reserve)/transfer from retained income	–	–	–	61 199	–	–	61 199	(61 199)	–	–	–
Cost of treasury shares (acquired)/disposed	–	(5 241)	–	–	–	541	(4 700)	–	(4 700)	–	(4 700)
Dividends paid	–	–	–	–	–	–	–	(424 201)	(424 201)	(3 879)	(428 080)
Other movements in reserves	–	–	–	–	30 600	–	30 600	(22 016)	8 584	–	8 584
Balance as at 31 December 2020	154 936	(71 660)	100 365	462 357	(206 940)	(40 155)	243 967	2 585 714	2 984 617	25 228	3 009 845
Balance as at 1 January 2021	154 936	(71 660)	100 365	462 357	(206 940)	(40 155)	243 967	2 585 714	2 984 617	25 228	3 009 845
Total comprehensive income	**–**	**–**	**–**	**–**	**125 130**	**–**	**125 130**	**388 022**	**513 152**	**4 715**	**517 867**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**388 022**	**388 022**	**4 715**	**392 737**
Foreign currency translation	**–**	**–**	**–**	**–**	**125 130**	**–**	**125 130**	**–**	**125 130**	**–**	**125 130**
Share-based payment expense (note 7)	**–**	**–**	**3 985**	**–**	**–**	**–**	**3 985**	**–**	**3 985**	**–**	**3 985**
(Transfer to statutory reserve)/transfer from retained income	**–**	**–**	**–**	**19 542**	**–**	**–**	**19 542**	**(19 542)**	**–**	**–**	**–**
Cost of treasury shares (acquired)/disposed	**–**	**2**	**–**	**–**	**–**	**3 090**	**3 092**	**–**	**3 092**	**–**	**3 092**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(183 541)**	**(183 541)**	**(11 215)**	**(194 756)**
Other movements in reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10 958**	**10 958**	**–**	**10 958**
Balance as at 31 December 2021	**154 936**	**(71 658)**	**104 350**	**481 899**	**(81 810)**	**(37 065)**	**395 716**	**2 781 611**	**3 332 263**	**18 728**	**3 350 991**
COMPANY											
Balance as at 1 January 2020	154 936	–	26 630	9 762	–	–	36 392	229 454	420 782	–	420 782
Profit for the year	–	–	–	–	–	–	–	376 033	376 033	–	376 033
Share-based payment expense	–	–	4 819	–	–	–	4 819	–	4 819	–	4 819
(Transfer from statutory reserve)/transfer to retained income*	–	–	–	(9 762)	–	–	(9 762)	9 762	–	–	–
Dividends paid	–	–	–	–	–	–	–	(374 637)	(374 637)	–	(374 637)
Balance as at 31 December 2020	154 936	–	31 449	–	–	–	31 449	240 612	426 997	–	426 997
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**115 796**	**115 796**	**–**	**115 796**
Share-based payment expense	**–**	**–**	**3 985**	**–**	**–**	**–**	**3 985**	**–**	**3 985**	**–**	**3 985**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(183 541)**	**(183 541)**	**–**	**(183 541)**
Balance as at 31 December 2021	**154 936**	**–**	**35 434**	**–**	**–**	**–**	**35 434**	**172 867**	**363 237**	**–**	**363 237**

* *Carried in the 2020 capital reserve opening balance was P9,8 million which has since been moved to retained earnings as the company found no reason to retain a reserve of that nature.*

The total dividend paid during the year was 65 thebe per share (2020: 133 thebe) net of withholding tax.

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STATEMENTS OF CASH FLOWS

For the year ended 31 December 2021

	Note	GROUP		COMPANY	
		2021 P'000	2020 P'000	2021 P'000	2020 P'000
Net cash flows from operating activities		**1 770 239**	955 391	**(44 998)**	(8 243)
Cash generated from operations	22	**1 477 887**	1 293 741	**(55 242)**	(46 698)
Interest received		**396 008**	40 341	**1 568**	2 397
Dividend received from equity investments		**28 172**	14 947	**–**	–
Dividend received from subsidiaries		**–**	–	**169 802**	394 616
Dividend received from associates and joint ventures		**147 304**	105 969	**23 038**	18 197
Interest paid		**(543)**	(861)	**(599)**	(646)
Tax paid	17.1	**(83 833)**	(70 666)	**(24)**	(1 472)
Dividend paid		**(194 756)**	(428 080)	**(183 541)**	(374 637)
Net cash flows utilised in investing activities		**(1 867 020)**	(873 276)	**2 854**	4 199
Purchase of property and equipment	2	**(16 424)**	(32 280)	**(1 297)**	(189)
Purchase of computer software	3	**(18 496)**	(1 934)	**–**	–
Proceeds from sale of investment in subsidiaries	4.5	**4 151**	4 388	**4 151**	4 388
Purchase of investment in associates	4.5	**–**	(2 633)	**–**	–
Acquisition of property investments		**(122 215)**	(207 605)	**–**	–
Purchase of bonds		**(720 361)**	(1 157 880)	**–**	–
Withdrawal/(purchase) of equity investments		**90 463**	(202 236)	**–**	–
(Purchase)/withdrawal of money market instruments		**(1 090 138)**	716 206	**–**	–
Receipts from loans receivable at amortised cost		**6 000**	10 698	**–**	–
Net cash flows from financing activities		**(5 438)**	(4 573)	**(1 500)**	(1 543)
Payment of principal portion of lease liabilities (IFRS 16)		**(5 438)**	(4 573)	**(1 500)**	(1 543)
Net (decrease)/increase in cash and cash equivalents		**(102 219)**	77 542	**(43 644)**	(5 587)
Cash and cash equivalents at the beginning of the year		**239 637**	162 095	**68 412**	73 999
Cash and cash equivalents at the end of the year	23	**137 418**	239 637	**24 768**	68 412

The money market instruments on the face of the statement of financial position amounting to P2,819 million (2020: P1,849 million) are policyholder assets and are not available for use by BIHL. As a result, the change in cash flows of the money market instruments has been included in the net cash flows from investing activities on the statement of cash flows.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

For the year ended 31 December 2021

GENERAL INFORMATION

The company and its subsidiaries (the group) underwrite all classes of long-term insurance, legal insurance, administer deposit administration schemes, manage investments and administer life and pension funds. It is also exposed to funeral services, short-term insurance and microlending through its associated companies.

The company is a limited liability company incorporated in Botswana. The company is listed on the BSE. The group's ultimate parent company, Sanlam Limited, holds 58,43% of the company's stated capital. Sanlam is one of the leading financial services groups in South Africa. It is listed on the Johannesburg Stock Exchange and on the Namibian Stock Exchange.

1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The group and company annual financial statements have been prepared in accordance with IFRS and in the manner required by the Companies Act (CAP 42:01), the Insurance Industry Act, 2015 and the Botswana Stock Exchange Act. The annual financial statements have been prepared on the historical cost convention, modified by measurement at fair value for financial assets, policyholder liabilities and investment properties.

The accounting policies of the group are the same as the accounting policies for the company, except for accounting policies regarding the investments in subsidiaries, associates and joint ventures.

The consolidated annual financial statements are presented in Pula (P'000), which is the company's functional currency and the group's presentation currency. All values are rounded to the nearest thousand, unless otherwise stated.

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance business are managed separately and are governed by the valuation bases for policy liabilities and profit entitlement rules, which are determined in accordance with prevailing legislation, IFRS and generally accepted actuarial practice. The valuation bases in respect of policy liabilities and the profit entitlement of shareholders are set out from page 135. The financial soundness valuation methodology as outlined in the report of the statutory actuary is equivalent to the liability adequacy test.

2. BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, the amount of any non-controlling interest in the acquiree and the fair value of any previously held interest. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed an asset or liability, will be recognised in accordance with IFRS 9 either as fair value through profit or loss or as fair value through other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

3. CHANGES IN ACCOUNTING POLICIES

The group applied, for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 January 2021. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below.

New or revised standards	Effective for the accounting period beginning on or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
COVID-19 Related Rent Concessions – Amendment to IFRS 16	1 June 2020

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

3. CHANGES IN ACCOUNTING POLICIES

continued

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary relief which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate.

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to a risk-free interest rate takes place on an economically equivalent basis with no value transfer having occurred.

Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognised. If they are not substantial, the updated EIR is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss. The practical expedient is required for entities applying IFRS 4 *Insurance Contracts* that are using the exemption from IFRS 9 *Financial Instruments* (and, therefore, apply IAS 39 *Financial Instruments: Classification and Measurement*) and for IFRS 16 *Leases*, to lease modifications required by IBOR reform.

Relief from discontinued hedging relationships

The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 and IAS 39 to measure and recognise hedge ineffectiveness. Amounts accumulated in the cash flow hedge reserve are deemed to be based on the risk-free interest rate. The cash flow hedge reserve is released to profit or loss in the same period or periods in which the hedged cash flows based on the risk-free interest rate affect profit or loss.

The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The relief allows the hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to risk-free interest rates, they will be transferred to sub-groups of instruments that reference risk-free interest rates as the hedged risk.

As instruments transition to risk-free interest rates, a hedging relationship may need to be modified more than once. The Phase 2 relief applies each time a hedging relationship is modified as a direct result of IBOR reform. The Phase 2 relief ceases to apply once all changes have been made to financial instruments and hedging relationships, as required by IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when a risk-free interest rate instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the risk-free interest rate risk component to become separately identifiable within the next 24 months.

The amendments are mandatory, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the Phase 2 amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

The group has applied the new amendments with no material impact.

COVID-19 – Related Rent Concessions – Amendment to IFRS 16

The amendment provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment does not apply to lessors. A lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change was not a lease modification.

The effective date of the amendment is 1 June 2020. The group opted for early adoption in 2020 and did not receive any rental relief, therefore the IFRS 16 amendment was not applied.

Standards issued but not yet effective

Standards issued but not effective up to the date of issuance of the group's consolidated annual financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The group intends to adopt these standards when they become effective.

New or revised standards	Effective for the accounting period beginning on or after
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IFRS 3 – Reference to the conceptual framework	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment* – Proceeds before intended use	1 January 2022
Amendments to IAS 37 – Onerous contracts – Costs of fulfilling a contract	1 January 2022
AIP IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 *Financial Instruments* – Fees in the '10 percent' test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1 – Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 8 – Definition of accounting estimates	1 January 2023
Amendments to IAS 12 – Deferred tax related to assets and liabilities from a single transaction	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies	1 January 2023

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the group and company except for IFRS 17 as listed below.

IFRS 17 *Insurance Contracts*

IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features (DPF). A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach), and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contracts to be recognised in profit or loss over the service period (i.e. coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the contractual service margin and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in profit or loss but are recognised directly on the statement of financial position
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes.

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

3. CHANGES IN ACCOUNTING POLICIES

continued

Initial work performed on the impact of IFRS 17 indicates that there will be a significant impact on the underlying valuation models, systems and processes. The group's assessment of the requirements of the standard against current data, processes and valuation models is largely complete, as well as the overall design of the future actuarial and financial reporting processes and architecture. Solution build activities are tracking in line with the group-wide programme. The group has been running trial reports reflecting the financial information under both IFRS 4 and IFRS 17 and expects to be able to quantify the impact of the changes during the 2022 financial year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The group makes judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of future benefit payments and premiums arising from long-term insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. Several sources of uncertainty need to be considered in the estimate of the liability that the company will ultimately pay for such claims. In particular, the claims arising from HIV and AIDS-related causes and future epidemics and pandemics.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the group. Estimates are made as to the expected number of deaths for each of the years in which the group is exposed to risk. The group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the group's own experience. The estimated number of deaths influences the value of the benefit payments and the valuation of premiums. The main source of uncertainty is that epidemics such as AIDS, pandemics such as COVID-19 and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the group has significant exposure to mortality risk. Continuing improvements, however, in medical care and social conditions could result in improvements in longevity. The longevity risk has been allowed for in the annuity portfolio.

Assumptions regarding future mortality, morbidity and disability rates are consistent with the group's recent experience or expected future experience if this would result in a higher liability. The company experienced significant claims as a result of excess mortality due to the COVID-19 pandemic. Mortality assumptions were adjusted to reflect the expected impact of excess mortality as a result of the COVID-19 pandemic.

For contracts without fixed terms, it is assumed that the group will be able to increase mortality risk charges in future years in line with emerging mortality experience. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on the medium- to long-term inflation assumption for Botswana plus a risk gap for different asset classes.

The balance of policyholder liabilities as at 31 December 2021 was P10,4 billion (2020: P10,8 billion). Refer to the statutory actuary's report for assumptions on the actuarial valuation of the liability.

Fair value of investments in unquoted equity

The investments in unquoted equity instruments have been valued based on the expected cash flows, discounted at the current rates applicable for items with similar terms and risk characteristics. This valuation requires the group to make estimates about expected future cash flows and discount rates and hence they are subject to significant judgement. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as discount rates, prepayment rates and default rate assumptions for asset-backed securities.

For DCF analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country-specific risks and COVID-19), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. The carrying amount of these instruments at year-end was P277 million (2020: P179 million).

Impairment of financial assets

Financial assets at amortised cost have been impaired based on the expected cash flows, discounted at the EIRs applicable for items with similar terms and risk characteristics. This impairment requires the group to make estimates about expected future cash flows and discount rates and hence they are subject to uncertainty. Impairment losses written off in the current year amounted to Pnil (2020: Pnil).

Impairment of non-financial assets

The group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when indicators of impairment exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. There were no impairment losses written off during the year.

Determination of fair value of investment properties

Investment property comprises properties held to earn rental income and/or capital appreciation. Investment properties are carried at fair value based on valuations by independent valuators. Fair value is determined by discounting expected future cash flows at appropriate market interest rates. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long-term vacancy rate. The valuators have appropriate qualifications and extensive experience in property valuation in Botswana. Refer to note 4.4.

Deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised to the extent that it is probable that there will be sufficient taxable temporary differences to net off against the deductible temporary difference or sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are recognised in respect of tax losses to the extent that there is convincing evidence that taxable profit will be available, against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

Liability for life insurance contracts

The liability for life insurance contracts is based either on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased by a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test which reflect management's best current estimates of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, the COVID-19 pandemic, lapse and surrender rates and discount rates. The group business bases mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted where appropriate to reflect the group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide-ranging changes to lifestyle, could result in significant changes to expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate.

Lapse and surrender rates depend on product features, policy duration and external circumstance, such as sale trends. Credible own experience is used in establishing these assumptions. Discount rates are based on current industry risk rates, adjusted for the group's own risk exposure. The carrying value at the reporting date for life insurance contract liabilities was P10,4 million (2020: P10,8 million). Refer to note 8.1.

Bonus stabilisation reserves

The group business and individual stabilised bonus portfolios are valued on a retrospective basis. If the fair value of the assets in such a portfolio is greater than the actuarial liabilities, a positive bonus stabilisation reserve is created which will be used to enhance future bonuses. Conversely, if the fair value of assets is less than the actuarial liabilities, a negative bonus stabilisation reserve is created. A negative bonus stabilisation reserve will be limited to the amount that the statutory actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years if investment returns are in line with long-term assumptions.

Bonus stabilisation reserves are included in long-term policy liabilities. The carrying value included in the liabilities is P14,3 million (2020: P18,6 million). Refer to the statutory actuary's report for assumptions on the actuarial valuation of the liability.

Provision for future bonuses

Future bonuses of 3% (2020: 3%) per annum are allowed for in the gross premium valuation.

Reversionary bonus business

The business is valued on a prospective basis assuming 3% (2020: 3%) per annum bonus rates going forward and allowing for prescribed margins.

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Liability for life insurance contracts continued

Individual stable bonus and market-related business

For policies where the bonuses are stabilised or directly related to the return on the underlying investment portfolios, the liabilities are equated to the retrospectively accumulated fair value of the underlying assets. No second-tier margins are held on this business, except to the extent that negative Pula reserves are eliminated. The carrying amount is P25,7 million (2020: P25,7 million).

Estimates of claims incurred but not reported (IBNR)

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims at the reporting date IBNR. It can take a significant period before the ultimate claims cost can be established with certainty. For some types of policies, IBNR claims form the majority of the liability in the statement of financial position. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

As the group does not have significant history of claims from which to develop a claims development pattern, industry averages are used to estimate the IBNR reserve at year-end combined with management's evaluation of the relationship between the business lines and the industry rates. The average industry rates are based on 10% of net written premiums after considering the reinsurance premiums.

Unexpired risk provisions

An unexpired risk provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses likely to arise after the end of the financial year from contracts concluded before that date. The expected claims are calculated having regard to events that have occurred prior to the reporting date. Unexpired risk surpluses and deficits are aggregated where business classes are managed together. No unexpired risk provision was raised as at 31 December 2021 or 31 December 2020 as management did not have any reason to provide for this at year-end.

Fair value measurement

A number of assets and liabilities included in the group's annual financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the fair value hierarchy):

Level 1: Quoted prices in active markets for identical items (unadjusted)

Level 2: Observable direct or indirect inputs other than Level 1 inputs

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The group measures several items at fair value:

- Investment property (note 4.4)
- Financial instruments (notes 4, 5,12 and 24)
- Insurance liabilities (note 8).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Classification of joint arrangements

For all joint arrangements structured in separate vehicles, the group must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the group to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to specific assets and obligations for the liabilities (in which case it is classified as a joint operation). Factors the group must consider include:

- structure
- legal form
- contractual agreement
- other facts and circumstances.

Upon consideration of these factors, the group has determined that its joint arrangement structure through a separate vehicle (Khumo Property Asset Management Proprietary Limited (Khumo)) only gives rights to the net assets and is therefore classified as a joint venture.

Furthermore, effective 1 January 2016, the BIHL Group acquired 50% of a company called Teledimo Proprietary Limited (Teledimo), a non-operating holding company, which holds a 100% investment in a short-term insurance company, Botswana Insurance Company Limited (BIC). Trans Industries Proprietary Limited (TI) which is a privately-owned company incorporated in Botswana owns the remaining 50% of Teledimo. The shareholders agreement between BIHL and TI provides for 50:50 representation and equal voting rights between the shareholders. BIHL and TI also equally exercise the decision-making authority through a unanimous agreement.

Based on the aforementioned, the group assessed that it has joint control of BIC and accounts for the joint arrangement as a joint venture using the equity method in the consolidated annual financial statements while it accounts for the joint venture at cost in the separate annual financial statements of the company.

Valuation of investments in associates

The investments in associates are considered for impairment at least annually. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data. The value in use calculation is based on a DCF model. The cash flows are derived from budgeted margins based on past performance and management expectations of market developments.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These require significant judgement. The consideration of impairment for National Insurance Company Limited (NICO) and Letshego Holdings Limited (LHL) is discussed further in note 4.5 to the annual financial statements.

Investment in subsidiaries, associates and joint ventures (at company level)

- **Subsidiaries** – Investment in subsidiaries is recognised at cost less accumulated impairment losses. All subsidiaries are incorporated in Botswana. These are Botswana Life Insurance Limited (Botswana Life), Bifm Holdings Limited, Kgolo Ya Sechaba (KYS), Private Property Botswana (PPB) and BIHL Share Scheme Trust.
- **Associates** – Associates are all entities over which the company has significant influence but not control or joint control, generally accompanying a shareholder of between 20% to 50% plus one vote of the voting rights. Associates are accounted for at cost less accumulated impairment losses. The company has an associate incorporated in Malawi (Nico Holdings Limited.
- **Interest in a joint venture** – The company has an interest in a joint venture which is jointly controlled. A joint venture arrangement is an arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a joint venture arrangement that involves the establishment of a separate entity in which each venture has an interest in the net assets of the jointly controlled entity. Investments in joint ventures are accounted for at cost less impairment losses. The company has a joint venture arrangement incorporated in Botswana (Teledimo).

Consolidation of investment funds

The group acts as a fund manager and also invests in a number of investment funds and has varying holdings. In determining whether the group controls such funds, it will focus on an assessment of the aggregate economic interests of the group (comprising any carried interests and expected management fees) and the investor's rights to remove the fund manager. This general assessment is supplemented by an assessment of third-party rights in the investment funds with regard to their practical ability to allow the group not to control the fund. The group assesses its interest in the investment funds on an annual basis to determine if the fund will be consolidated. The non-controlling interest owned by third parties is classified as a financial liability in the consolidated statement of financial position. These interests are classified at fair value through profit or loss and measured at fair value which is equal to the number of units not owned by the group. In practice, the group considers itself to have control of a fund when it both owns the asset manager and holds greater than 20% thereof.

5. OFF-BALANCE SHEET SEGREGATED FUNDS

The group also manages and administers assets for the account of and the risk of clients. As these are not assets of the group, they are not recognised in the group's statement of financial position in terms of IFRS but are disclosed as a note. Refer to note 8.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue from contracts with customers

In terms of IFRS 15 *Revenue from Contracts with Customers*, the group applies a five-step approach when reviewing customer contracts in order to determine how revenue is recognised. These steps are:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The group earns its fee revenue from investment management fees, dividends, rental, fair value appreciation on financial instruments and interest. The five-step approach is only relevant to investment management fees which are derived from mandates with customers. Specifically, revenue is recognised as follows:

- Revenue from contracts with customers, subject to the provisions of IFRS 15, consists of fees for investment management services which are time-based and performance based. Time-based fees are recognised as services are rendered and due when billed. Performance-based fees are due when specific criteria have been met. Refer to note 13.1 for further details.

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Revenue from contracts with customers continued

- Fees for investment management services arising from services rendered in conjunction with the issue and management of investment contracts where the group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument.

Performance obligations

Management fee income is generally accrued daily as asset management services are rendered. The investment mandates do not place further pre-conditions and the fees are therefore computed on fixed percentages of the value of assets under management (AUM). The fees fall due and payable when billed either monthly, quarterly or biannually as stipulated in each contract. Performance fees are fees earned when predetermined criteria are achieved. The performance fees were generated from one contract which commenced in December 2017. The following criteria are stipulated in the performance contract and were evaluated using the five-step approach defined in IFRS 15.

Contract criteria

The performance evaluation of the specified fund is determined over a 12-month period against the fund's annual return target of Fleming Aggregate Bond Index + 0,50% starting on the 1st of December each year. The performance fee rate is 0,1% of the market value of the fund as at 30 November 2021, which is also the contract evaluation date. The annual performance fees for 2021 are for the period 1 December 2020 to 30 November 2021. The performance fees are calculated gross of the portfolio management fees. The performance fee is payable net of transaction fees, brokerage fees, agency or subcontractor fees and fiscal charges or levies.

IFRS 15 considerations

A contract exists between the group and the fund. The contract is subject to management fees and performance-based fees.

Performance obligations

The performance period and the performance obligations described above were not met as at the evaluation date.

Insurance revenue

Life insurance

The monthly premiums in terms of the policy contracts are accounted for when due. Group life insurance premiums are accounted for when receivable. Where premiums are not determined in advance, they are accounted for upon receipt. Single premiums on insurance contracts are recognised as income on the date on which the policy is effective which is the date when the premium is received. Premium income is reflected gross of reinsurance premiums and premiums payable on assumed reinsurance are recognised when due.

The unearned portion of accrued premiums is included within policyholder liabilities. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim. Gross changes in the unearned premium provision are recorded against premium income in the reporting period.

Reinsurance premiums – life insurance

Gross reinsurance premiums on life and investment contracts are recognised as a net off against revenue on the earlier of the date when premiums are payable or when the policy becomes effective.

Non-life insurance

Gross non-life insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Third-party premiums embedded in the products that form part of the premium rate are deducted from the gross premium. A cash-back bonus is provided for as an operating expense and a related provision is recognised in the statement of financial position. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of non-life premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily *pro rata* basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums and removed from the premium income in the reporting period.

Reinsurance premiums – non-life insurance

Gross non-life reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risk-attaching contracts and over the term of the reinsurance contract for loss occurring contracts by making use of a prepayment account and adjusting the reinsurance expense in the reporting period.

Other revenue

Investment income

Interest income is recorded using the EIR, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Dividend income is recognised when the shareholder's right to receive payment is established through approval by the shareholders.

Fee income – long-term policy contracts

Investment and insurance contract policyholders are charged for policy administration, risk underwriting and other services. These fees are recognised as revenue on an accrual basis as the related services are rendered.

Net gain or loss on financial assets and liabilities at fair value through profit or loss

Net gains or losses on financial assets and liabilities at fair value through profit or loss are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition at fair value through profit or loss and exclude interest and dividend income and expenses. Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of the prior period's unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified at fair value through profit or loss are calculated using the first-in, first-out method. They represent the difference between an instrument's initial carrying amount and disposal amount.

Reinsurance assets

The group cedes insurance risk on risk policies with an insured value that exceeds a certain threshold, which is set and revised by management from time to time. Reinsurance assets represent balances due from reinsurance companies. Reinsurance asset amounts are estimated in a manner consistent with the outstanding claims provision and the long-term insurance liabilities and are in accordance with the reinsurance contract.

Contracts entered into with reinsurers under which the group is compensated for losses on one or more long-term policy contract issued by the group and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the group will receive from the reinsurer can be measured reliably. The impairment loss is charged to the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed what the balance would have been, at the date of reversal, if the impairment loss was not recognised in the past.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the group from its obligations to policyholders.

Benefits, claims and expenses recognition

Gross benefits and claims

Life insurance policy claims received up to the last day of each financial period are provided for and included in policy benefits. Life insurance policy claims include a provision for IBNR claims at year-end.

Non-life insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Maturity and annuity payments are recognised when due. Surrenders are recognised at the earlier of the payment date or the date on which the policy ceases to be included in long-term policy liabilities. Provision is made for underwriting losses that may arise from unexpired insurance risks when it is anticipated that unearned premiums will be insufficient to cover future claims. Claims recoveries from reinsurance policies are recognised concurrently with the recognition of the related policy benefit. Premiums payable on reinsurance are recognised when due. Claims handling costs are accounted for separately.

Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Amounts recoverable from reinsurers or outstanding claims are shown as a deduction from the gross benefits.

Selling expenses

Selling expenses consist of commission payable to sales staff on long-term insurance business, life business and expenses directly related thereto.

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Selling expenses continued

Commission on long-term insurance business and life business is accounted for on all activated policies in the financial period during which it is incurred. All acquisition costs on risk business are expensed.

Basis of consolidation

The consolidated annual financial statements comprise the financial statements of BIHL, its subsidiaries and consolidated funds as at 31 December 2021. The reporting dates of the subsidiaries and the group are within three months of the group's reporting date and all use consistent accounting policies. In the company only accounts, subsidiaries, associates and joint ventures are accounted for at cost less accumulated impairment losses.

Subsidiaries

Subsidiaries are those entities in which the group has an interest and control. Control is achieved when the group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns.

The group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary. Where the reporting date of the subsidiary is different from the group, adjustments are made for the effects of any major transactions or events that occur between the reporting date of the subsidiary and that of the group.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interest
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the group had directly disposed of the related assets or liabilities.

Associates

Investments in associates are accounted for using the equity method of accounting. Under this method, the group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in other comprehensive income/equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. The group's share of post-acquisition profits or losses is based on the earnings attributable to the owners of the associates (after tax and non-controlling interest in the associates). Associates are entities over which the group generally has between 20% and 50% of the voting rights, or over which the group has significant influence even if it has less than 20% voting rights, but which it does not control.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The group's investment in associates includes goodwill on acquisition. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses unless the group has incurred obligations or made payments on behalf of the associates. The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount to share of profit/(loss) of an associate in the income statement.

Interest in a joint venture

The group has an interest in joint arrangements, which are a joint venture. A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a joint venture is a joint arrangement that involves the establishment of a separate legal entity in which each venturer has an interest in only the net assets of the separate entity. The group recognises its interest in the joint ventures using equity accounting. The year-ends of the group's joint ventures are 31 October and 31 December. Adjustments are made for any significant transactions or events in the intervening period between 31 October and the group's reporting date.

Consolidated funds

A financial liability is recognised and classified at fair value through profit or loss, for the fair value of external investors' interest in consolidated funds where the issued units of the fund are classified as financial liabilities in terms of IFRS. Changes in the fair value of the external investors' liability are recognised in the statement of comprehensive income. In all other instances, the interests of external investors in consolidated funds are not financial liabilities and are recognised as non-controlling shareholders' interest.

Acquisition of non-controlling interests

Non-controlling interests represent the equity of the subsidiary not held by the group and are presented separately in the income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Transactions with non-controlling interest leading to changes in ownership interest without control being affected are accounted for in equity as transactions with owners.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Financial instruments

Financial instruments carried on the statement of financial position include investments (excluding associates and joint ventures), receivables, cash, deposits and similar securities, investment policy contracts, term finance liabilities, liabilities in respect of external investors in consolidated funds and payables. Financial instruments are recognised when the group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the group that is not subject to suspensive conditions. Regular way investment transactions are recognised by using trade date accounting.

Financial instruments are classified at initial recognition and measured at:

- amortised cost, or
- fair value through profit or loss (either mandatory or designated).

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired, or liabilities assumed.

Initial recognition and measurement

A financial asset is measured at amortised cost if it meets the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- Financial assets at amortised cost comprise insurance and other receivables, cash, deposits and similar securities, loans and amounts owing by related parties.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The group does not have any assets held at fair value through other comprehensive income.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described previously are mandatorily measured at fair value through profit or loss. In addition, the group designates certain financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income or at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Initial recognition and measurement continued

On initial recognition, the group designates a financial asset at fair value through profit or loss when doing so results in more relevant information because:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- a group of financial liabilities or a group of financial assets and liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the entity's key management personnel
- the following investments in financial assets are designated at fair value through profit or loss for policyholders and shareholders:
  - Corporate and quasi-Government bonds
  - Fixed interest securities
  - Equity investments – listed
  - Equity investments – unlisted
  - Policy loans and other loan advances
  - Money market instruments.

The group designates financial instruments at fair value through profit or loss in line with its risk management policies and procedures that are based on the management of the group's capital and activities on a fair value basis.

A financial asset or financial liability is initially measured at fair value, plus for a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Costs directly attributable to the acquisition of financial assets classified at fair value through profit or loss are recognised in the income statement as net loss from financial assets held at fair value through profit or loss.

Derecognition

A financial asset is primarily derecognised (i.e. removed from the group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either
- the group has transferred substantially all the risks and rewards of the asset, or the group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the group continues to recognise the transferred asset to the extent of its continuing involvement. In this case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the group could be required to repay.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include investment and insurance contract liabilities designated upon initial recognition at fair value through profit or loss. Gains and losses on financial liabilities held at fair value through profit or loss are recognised in profit or loss. The fair value of the investment contract liabilities is determined by the fair value of the underlying financial assets that are directly backing the financial liability.

Other liabilities such as trade and other payables and amounts owing to other related companies are initially measured at fair value. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR method amortisation process. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in profit or loss.

Derecognising financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Derivative financial instruments

The group is exposed to certain risks relating to its ongoing business operations. The primary risk, which is managed using derivative instruments, is foreign currency risk relating to the company's investment in foreign currency-denominated financial instruments. The derivative instruments reflect the change in fair value of foreign exchange swap transaction contracts that are intended to reduce the level of foreign currency risk. These derivatives are measured at fair value through profit or loss. The company does not apply hedge accounting.

Impairment of financial assets and non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired.

Financial assets at amortised cost

The group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The group considers a financial asset in default when contractual payments are 90 days past due. In certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Impairment of non-financial assets

Assets that are subject to depreciation/ amortisation, except intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, an appropriate valuation model is used.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units) that are largely independent from cash inflows generated by other asset(s) or group(s) of assets. Non-financial assets are only considered in cash-generating units if the individual asset cannot generate cash inflows that are largely independent from cash inflows generated by other assets or groups of assets.

In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators of comparable assets.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities continued

Impairment of non-financial assets continued

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Collateral in respect of financial assets

Collateral placed at counterparties as part of the group's capital market activities are not recognised. No transfer of ownership takes place in respect of collateral other than cash and any such collateral accepted by counterparties may not be used for any purpose other than being held as security for the trades to which such security relates. In respect of cash security, ownership transfers in law. The counterparty, however, has an obligation to refund the same amount of cash, together with interest, if no default has occurred in respect of the trades to which such cash security relates. Cash collateral is accordingly also not derecognised.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Government bonds do not have collateral as these are deemed low-risk and recoverable.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and funds on deposit.

Foreign currency translation

Functional and presentation currency

The consolidated annual financial statements are presented in Botswana Pula, which is the group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences on remeasurement and settlement of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively). Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Foreign operation financial statements

The functional currency of the foreign operations, African Life Financial Services (Zambia) Limited and Quantum Assets Zambia Limited, is Zambian Kwacha. The group is also invested in an associated company in Malawi whose functional currency is the Malawian Kwacha. As at the reporting date, the assets and liabilities of the associate and subsidiary are translated into the presentation currency of the group at the rate of exchange ruling at the reporting date and the income statement is translated at the weighted average exchange rate for the year. The exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that foreign operation is recognised in the income statement as part of profit or loss on disposal of the subsidiary.

Property and equipment and owner-occupied property

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life. Land is not subject to depreciation. Owner-occupied property comprises land and buildings held for use in supply or for administration purposes.

The following are the applicable useful lives:

Buildings	20 years
Furniture and fittings	5 – 10 years
Computer equipment	4 years
Motor vehicles	4 years
Leasehold improvements	Lower of lease term and useful life of improvements (5 – 10 years)

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset if the recognition criteria are met. Major renovations are depreciated over the remaining useful life of the related asset.

Depreciation commences when the item of property and equipment is available for use as intended by management and ceases when the item is derecognised or classified as held for sale or included in a discontinued operation. Depreciation ceases temporarily while the residual value is equal to the carrying value.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

All assets are tested for impairment on an annual basis and the assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment at each reporting date and whenever there is an indication that the intangible asset is impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year-end. Changes in the expected useful life and the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method as appropriate and treated as changes in accounting estimates. The amortisation expense is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation commences when an intangible asset is available for use and ceases at the earlier of the intangible asset being classified as held for sale and the date that the asset is derecognised. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and are recognised in the income statement when the asset is derecognised.

Computer software

Generally, costs associated with purchasing computer software programs are capitalised when the requirements for capitalisation are met. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use. Costs that are clearly associated with an identifiable system, which will be controlled by the group, and which have a probable benefit beyond one year, are recognised as an asset provided they meet the definition of development costs.

Computer software development costs recognised as assets are amortised in the income statement on the straight-line method over their useful lives, not exceeding a period of three years and are carried in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses. The carrying amount, useful lives and amortisation methods of assets are reviewed and adjusted if appropriate at each reporting date.

Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the acquisition date fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss as a bargain purchase gain.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment on goodwill is never reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued

Goodwill continued

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Taxes and value added tax (VAT)

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in profit or loss unless the underlying transaction was recorded directly in other comprehensive income or equity. In such an instance, the deferred tax is recorded in other comprehensive income and equity as well. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current income tax

Current taxation is charged on the net income for the year after considering income and expenditure, which is not subject to taxation, and capital allowances on fixed assets. Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax relating to items recognised directly in other comprehensive income or equity is also recognised in other comprehensive income or equity and not in the income statement. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted at the reporting date.

Value added tax

Revenue, expenses and assets are recognised net of the amount of VAT except:

- where VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Uncertainty over income tax treatments

As per the provisions of IFRIC 23, the interpretation does not apply to taxes or levies outside the scope of IAS 12. The interpretation also does not specifically include requirements relating to interest and penalties associated with the uncertain tax treatments. In addition, the interpretation applies when there is uncertainty over income tax affecting both current tax and deferred tax. The interpretation specifically addresses the following:

- Whether to consider uncertain tax treatment separately
- The assumptions to be made about the examination of tax treatments by the tax authorities
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- Consideration for changes in facts and circumstances on which judgements and estimates are based.

The group assesses changes in facts and circumstances on which judgements and estimates are based, however, for the year ended 31 December 2021, there were no uncertain tax positions.

Stated capital

Stated capital is recognised at the fair value of the consideration received by the company. Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases the company's own equity stated capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue, or cancellation of the group's own equity instruments.

Employee benefits

Pension obligations

Defined contribution plan

The group operates a defined contribution plan. Under the defined contribution plan:

- the group's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and the employee) to a trustee administered fund, together with investment returns arising from the contributions, and
- in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. Defined benefit contributions are recognised as expenses when incurred.

Medical aid

In terms of employment contracts and the rules of the relevant medical aid scheme, medical benefits are provided to employees. The group subsidises a portion of the medical aid contributions for employees. Contributions in relation to the group's obligations in respect of these benefits are charged against income in the period of payment.

The group has no post-retirement medical funding obligations.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group recognises a liability and expense for termination benefits at the earlier of the following dates:

- When the entity can no longer withdraw the offer of those benefits, and
- When the entity recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

Termination benefits are normally paid off within 12 months, hence they are not discounted.

Leave pay accrual

The group recognises, in full, employees' rights to annual leave entitlement in respect of past service. The recognition is made each year-end and is calculated based on accrued leave days not taken at year-end. The charge is made to expenses in the income statement and trade and other payables in the statement of financial position.

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefits continued

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonuses is recognised in trade and other payables when there is no realistic alternative but to settle the liability when both of the following conditions are met:

- The group has a present legal or constructive obligation to make such payments as a result of past events, and
- A reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Share-based compensation

In 2010, the group introduced two schemes being: The share option scheme (SOS) and the conditional share plan (CSP).

Share option scheme

All employees are eligible to participate in the scheme based on performance. Each employer company recommends to the HR committee which employees it intends to incentivise by making offers subject to the approval of the HR committee. Options are exercised by payment of the offer price after the vesting date by the employees in exchange for equity shares. The vesting period is three years. The subsidiaries account for the awards as cash-settled while the group and holding company account for the awards as equity-settled.

Conditional share plan

The purpose of the plan is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the group. The awards are given as grants. The awards are aligned to strategic periods and targets. Vesting is based on a future date in line with a specific strategy period and subject to specific performance criteria. The subsidiaries account for the awards as cash-settled while the holding company accounts for the awards as equity-settled.

Equity-settled transactions

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The fair value of options at grant date is expensed over the vesting period. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied if all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. If a new award is, however, substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in note 21. For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the obligation by considering the terms and conditions on which the rights were granted, and the extent to which the employees have rendered services to date.

Botswana Insurance Fund Management (Bifm) citizen economic empowerment (CEE) share option scheme (CEESOS)

Bifm implemented a CEE share scheme (the scheme) in 2019, whereby the company issued 25,1% of its ordinary share capital to citizen employees of Bifm. The scheme aims to fulfil the following motives of the company:

- To meet the requirements of key clients in the market regarding CEE
- To attract and retain key local skills within the company
- To empower citizen employees economically
- To align the interest of staff with those of the clients.

At the inception of the Bifm CEE SOS, Bifm issued 21 849 246 additional shares (representing 25,1% of the issued capital of the company). The additional issued share capital was independently valued by Deloitte at P64,7 million.

The 25,1% issued capital was issued in the following manner.

At the commencement of the scheme:

- 11% (9 575 368 shares) was immediately allocated to existing employees as participatory shares to be purchased by employees at arm's length with the aid of Bifm staff loans
- 4% (3 481 950 shares) was reserved in the Bifm CEE share trust (a trust formed in 2019 to hold shares in Bifm on behalf of its employees) for future allocation to employees. These shares were originally part of a 15% allocation toward the participatory shares and were transferred to the Bifm CEE Share Trust after 11% was taken up by staff in February 2019
- 10,1% (8 791 928 shares) was issued to the Bifm CEE share trust, on behalf of Bifm employees, to be allocated annually in the form of grants with a vesting period of three years.

Bifm accounts for the awards as cash-settled. As a result of the issue of the shares to employees, BIHL Group lost part of its interest in Bifm Holdings from 100% to 89%. The impact of this dilution is disclosed in the statement of changes in equity.

Dividends

Dividends are recorded in the group's consolidated annual financial statements in the period in which they are approved by the shareholders. Hence, dividends proposed or declared after the period ends are not recognised at the reporting date. Dividends that are approved after the reporting date but before the annual financial statements are authorised for issue are disclosed by way of a note to the annual financial statements together with the related per share amount. The withholding taxes are accrued for in the same period as the dividends to which they relate. Withholding taxes at the statutory rate of 7,5% are deducted from the total dividend declared. Where the company receives a dividend on which withholding tax is levied, that withholding tax is recognised as a current tax expense.

Selling expenses

Selling expenses consist of commission and bonuses payable to sales staff on long-term insurance business and expenses directly related thereto. Commission on life business is accounted for on all in-force policies in the financial period during which it is incurred.

Administration expenses

Administration expenses include, *inter alia*, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs and are recognised on an accrual basis. Expenses incurred by functional departments are allocated to group and individual business, and then furthermore for individual business by acquisition and maintenance in accordance with the function performed by the departments. Premium collection costs are accounted for on the accrual basis.

Leases

At inception of a contract, the group assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group assesses whether:

- the contract involves the use of an identified asset specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset and if the supplier has a substantive substitution right, then the asset is not identified
- the group has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use
- the group has the right to direct the use of the asset. The group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the group has the right to direct the use of the asset if either:
  - the group has the right to operate the asset, or
  - the group designed the asset in a way that predetermines how and for what purpose it will be used.

Group as a lessee

The group recognises a right-of-use asset and a lease liability at the commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The group has nine rental leases that make up the right-of-use assets around the country. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term which is also the useful life of the right-of-use asset. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Group as a lessee continued

Buildings – two to eight years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit on the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payment
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee
- The exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period and the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or if the group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Group as a lessor

Leases in which the group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Short-term leases and leases of low-value assets

The group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Contingent liabilities and assets

Possible obligations of the group arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group and present obligations of the group arising from past events where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured reliably, are not recognised in the group consolidated statement of financial position but are disclosed in the notes to the annual financial statements.

Possible assets of the group arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the group are not recognised in the group statement of financial position and are only disclosed in the notes to the annual financial statements where an inflow of economic benefits is probable.

Non-distributable reserves

Non-distributable reserves include the following:

Consolidation reserve

A consolidation reserve is created for differences in the valuation bases of long-term policy liabilities and assets supporting these liabilities. Certain assets held in policyholder portfolios may be measured on a basis inconsistent with that of the corresponding liability by IFRS. The consolidation reserve is created for the effect of treasury shares, which represent BIHL shares purchased and held within the group but are supporting policyholder liabilities which are measured at fair value.

The cost of treasury shares is deducted from equity through a separate reserve account called a treasury share reserve.

The excess of the fair value of shares over the cost is accounted for through the consolidation reserve, which is a capital reserve. The reserve represents a temporary mismatch in that the reserve will reverse when the affected investments are realised through sale to parties external to the group.

Capital reserve account – life insurance

The provision of the Insurance Industry Regulation of 2020 requires a long-term insurer to maintain minimum capital which shall be the higher of P10 million or an amount representing 25% of operating expenses as defined and reported in the annual return, estimated for the following year. Previously, the provisions of the Insurance Industry Act (section 9 of the Insurance Industry Act, 2015) required that 25% of the surplus arising in a year should be transferred to this reserve. This reserve can be utilised at least once every five years to increase the paid-up stated capital of the company.

As part of its review of the capital structure, the group made an application in prior years to the Regulator, Non-Bank Financial Institutions Regulatory Authority (NBFIRA), for exemption from further transfers to the statutory capital reserves as the group was holding excess capital reserves which were not utilised. The Regulator approved the suspension of the transfer of the 25% annual after-tax profit to the statutory capital reserves for an indefinite period until the objective of the suspension is achieved. The group currently holds statutory capital reserves of at least 1,2 times the required capital levels based on IPR3L – Prescribed Capital Target (PCT).

Share-based payment reserve

This is associated with equity-settled share-based payment compensation as described in the heading (employee benefits).

Treasury share reserve

Own equity instruments of the group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the group own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase sale or cancellation of own equity instruments.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from translation of investment of foreign investments in associates and a share of other comprehensive income of an associate emanating from the translation of the financial statements of its foreign operations.

Insurance contract liabilities

The group's main insurance products are:

- non-participating annuities
- employee benefits
- universal individual life product 'Mompati'
- insurance contracts with DPF.

Mompati is a universal life product designed to provide insurance benefits such as life cover, disability and hospitalisation benefits under an umbrella product with an investment component. The product also allows for funeral cover for the main member as well as his/her family members. The value of the investment account is paid in the event of maturity or surrender. The investment account is credited with premiums received (net of expense charges, commission and the cost of risk benefits) and investment returns.

The policyholder liability for annuities includes a mismatch and reinvestment reserve. Its purpose is twofold:

- To ensure that the group can withstand any losses due to the mismatch of asset and liability cash flows
- To provide against reinvestment risk that arises because of the duration of the assets being shorter than the liabilities. The shorter term of the assets may result in future asset proceeds being reinvested on less favourable terms than were available at policy inception. The group is exposed to financial risk if the investment returns on reinvested asset proceeds are lower than were allowed for in the product pricing.

Valuation bases and methodology

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business and the corresponding shareholder profit entitlement are set out below. The value of policy liabilities as at 31 December 2021 and 31 December 2020 exceeded the minimum requirements in terms of the Insurance Industry Act, 2015 and Non-Bank Financial Institutions Regulatory Authority Act.

Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the gross premium method. The entity calculates DCF reserves, bonus stabilisation reserves, unit reserves, sterling reserves, unexpired premium and unexpired risk reserves, IBNR and discretionary reserves (including data reserves).

DCF reserves are calculated using the gross premium valuation method. The liability is determined as the sum of the discounted value of expected future benefits (including any declared bonuses), claims handling and policy administration expenses, policyholder options and guarantees less the discounted value of the expected premiums and investment income from assets backing the reserves, which are directly related to the contract. Bonus stabilisation reserves are calculated for contracts with discretionary benefits by building up retrospective reserves with policyholder allocated profits.

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Insurance contract liabilities continued

Valuation bases and methodology continued

Life insurance contract liabilities continued

To the extent that these reserves differ (less or more) from the calculated DCF reserves, the insurer holds bonus stabilisation reserves.

Unit reserves are set equal to the value of unitised funds underlying unit-linked contracts by multiplying the number of units by the price of these units.

The group also has Pula reserves under its unit-linked contracts. These are calculated using the gross premium valuation method and represent the liability faced by the insurance company, that relate to cash flows the insurer will be liable for under a contract after setting up the unit reserves. The liability is determined as the sum of the discounted value of expected future benefits in excess of any unit-linked benefits, claims handling and policy administration expenses, policyholder options and guarantees less the discounted value of the expected charges and investment income from assets backing the Pula reserves, which are directly related to the contract.

The liability calculations are based on current assumptions, including allowance for compulsory and discretionary margins as per Botswana regulation IPR1L. Discretionary reserves are also held, some of which are based on judgement (e.g. expert data reserves) and others are built up and released using specifically developed methodologies. Furthermore, the liability for life insurance includes provisions for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the group. Adjustments to the liabilities at each reporting date are recognised in profit or loss. The liability is derecognised when the contract expires, is discharged or is cancelled.

Classification of contracts

A distinction is made between investment contracts (which fall within the scope of IFRS 9 *Financial Instruments*: Recognition and Measurement), investment contracts with discretionary participating features and insurance contracts (where the financial soundness valuation method continues to apply, subject to certain requirements specified in IFRS 4 *Insurance Contracts*). A contract is classified as insurance where the group accepts significant insurance risk by agreeing with the policyholder to pay significant additional benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Policy contracts not classified as insurance contracts are classified as investment contracts and comprise of the following categories:

- Investment contracts with DPF
- Investment contracts with investment management services
- Other investment contracts.

An investment contract with DPF entitles the policyholder to receive benefits or bonuses in addition to guaranteed benefits. These additional benefits have the following features:

- The benefits constitute a significant portion of each policy's total benefits
- The timing and amount of the benefits are at the discretion of the BIHL Group, which must be exercised in a reasonable way
- The benefits are based on the investment performance of a specified pool of underlying assets.

All investment contracts that fall within the scope of IFRS 9 (i.e. all investment contracts without DPF) are designated at fair value through profit or loss. Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position, known as deposit accounting. Fees charged and investment income received are recognised in the income statement when earned.

Fair value adjustments are performed at each reporting date and are recognised in the income statement. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit price of those funds at the reporting date.

The fund assets and liabilities used to determine the unit price at the reporting date are valued on the bases as set out in the accounting policy for investments. It was not considered necessary to exclude intangible assets, which are inadmissible assets for prudential regulatory purposes, from value of the assets for the purposes of the annual financial statements. The liability is derecognised when the contract expires, is discharged or cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value. Investment contracts expose the investor to financial risks.

Capital and risk management

The business is exposed to various risks in connection with its current operating activities. These risks contribute to the key financial risk that the proceeds from the business financial assets are not sufficient to fund the obligations arising from insurance and investment policy contracts and the operating activities conducted by the business. The business has an integrated approach towards the management of its capital base and risk exposures with the main objective being to achieve a sustainable return on embedded value at least equal to the business' cost of capital.

The business is exposed to various risks that have a direct impact on the business capital base and earnings and, as such, return on embedded value. The management of these risks is therefore an integral part of the business' strategy to maximise return on embedded value. The business' risk exposures can be classified into the following broad categories:

- Financial risks affecting the net asset value of the shareholders' fund (note 24)
- General operational risks
- Long-term insurance risks.

Capital management

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value.

The group manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 31 December 2020.

The group monitors capital using a capital adequacy requirement. Capital adequacy implies the existence of a buffer against experience worse than assumed under the Financial Stability Board's statutory valuation method. The sufficiency of the buffer is measured by comparing excess of assets over liabilities for statutory reporting purposes with the statutory capital adequacy requirement. The main element in the calculation of the capital adequacy requirement is the determination of the effect of an assumed fall in asset values on the excess of assets over liabilities.

The group complied with all externally imposed capital requirements. The provisions of the Insurance Industry Act, 2015 require that 25% of the surplus arising in a year should be transferred to a capital reserve. This reserve can be utilised at least once every five years to increase the paid-up stated capital of the group.

Capital includes shareholders' equity and long-term debt. As at year-end, there was no long-term debt.

	2021 P'000	2020 P'000
Shareholders' equity	**3 299 682**	2 984 617
PCT (life business only)	**241 818**	362 110
Ratio of excess assets to PCT (life business only)	**10,1**	5,89

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

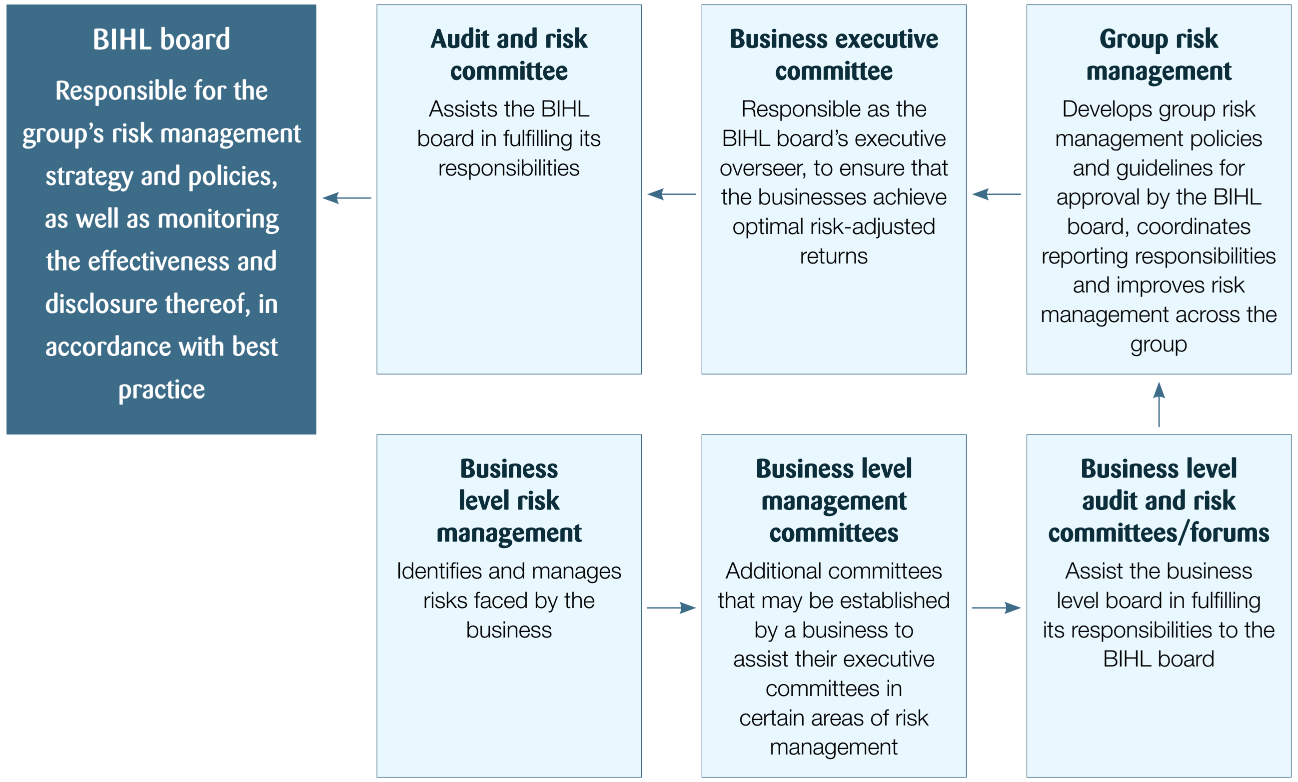
For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Governance structure

The agenda of the BIHL board focuses on group strategy, capital management, accounting policies, financial results, dividend policy, human resource development, corporate governance and BSE requirements. The BIHL board is responsible for statutory matters across all BIHL businesses as well as monitoring operational efficiency and risk issues throughout the group.

The group operates within a decentralised business model environment. In terms of this philosophy, the BIHL board sets the group risk management policies and frameworks, and the individual businesses take responsibility for all operational and risk-related matters on a business level, within the limits set by these policies and frameworks. The following diagram generically depicts the flow of risk management information from the individual businesses to the BIHL board.



Other risk monitoring mechanisms

BIHL board
Reviews and oversees the management of the group's capital base

Actuarial committee
Determines appropriate investment policies and guidelines for policyholder portfolios where guarantees are provided

Compliance committee
Facilitates management of compliance through analysing of statutory and regulatory requirements, and monitoring implementation and execution thereof

Group risk forum
Aids coordination and transfer of knowledge between businesses and the group, and assists group risk management in identifying risks requiring escalation to the BIHL board

Non-listed asset review
Reviews and approves the valuation of all unlisted assets in the group for recommendation to the BIHL board

Chief Financial Officer
Ensures that sound financial practices are followed, adequate and accurate reporting occurs and financial statement risk is minimised

Actuarial
Monitors and reports on key risks affecting the life insurance operations. Determines capital requirements of the life insurance operations and the potential impact of strategic decisions thereon by using appropriate modelling techniques

Group governance/secretariat and public officers
Reviews and reports on corporate governance practices and structures. Reports on applicable legal and compliance matters

Forensics
Investigates and reports on fraud and illegal behaviour in businesses

Investment committee
Determines and monitors appropriate investment strategies for policyholder solutions

Credit review committee
Reviews, assesses, approves and monitors specific counterparty credit risk and manages the credit risk inherent in the portfolios on an ongoing basis

Group IT risk management
Manages and reports group-wide IT risks

Risk officer (per business)
Assists business management in their implementation of the group risk management process and monitors the business' entire risk profile

Internal audit
Assists the BIHL board and management by monitoring the adequacy and effectiveness of risk management in the businesses

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Group risk policies and guidelines

All risks are managed in terms of the policies and guidelines of the board and its committees. Some of the main policies are: the BIHL Group enterprise risk management (ERM) policy, group risk escalation policy and group business continuity management policy.

These policies were developed by group risk management and must be implemented by all group businesses. The maturity of the implementation does, however, vary from business to business due to different cost/benefit scenarios, complexity of risks and the degree of risk integration. At the quarterly group risk forum meetings, risk management reports by each business are tabled that must also indicate the extent of compliance with the ERM policy.

BIHL group ERM policy

The group ERM policy includes the following components:

- The broad objectives and philosophy of risk management in the group
- The roles and responsibilities of the various functionaries in the group tasked with risk management
- The group's minimum standards for implementation of risk management in the businesses.

BIHL group risk escalation policy

The risk escalation policy defines the circumstances in which risk events and emerging risks should be escalated to the BIHL group level. This includes quantifiable and unquantifiable measures.

General operational risks

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The business mitigates these risks through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as backup facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted based on the segregation of duties designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened by the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the business securities. To ensure validity, all transactions are confirmed with counterparties independently from the initial executors.

The business has a risk-based internal audit approach, in terms of which priority is given to the audit of higher risk areas, as identified in the planning phase of the audit process. The internal control systems and procedures are subject to regular internal audit reviews. The BIHL investment committee is responsible for the implementation and monitoring of risk management processes to ensure that the risks arising from trading positions are within the approved risk parameters.

The following functionaries assist in mitigating operational risk:

Internal audit

A board-approved internal audit charter governs internal audit activity within the group. Regular risk-focused reviews of internal control and risk management systems are carried out. The internal audit function is appointed in consultation with the Chairman of the audit and risk committee and has unrestricted access to the Chairman of the committee. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

External audit

The group's external auditor is Ernst & Young. The report of the independent auditor for the year under review is contained on pages 104 to 108 of these annual financial statements. The external auditor provides an independent assessment of certain systems of internal financial control, which it may rely on to express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditor are strictly governed by a group policy in this regard. A compulsory rotation of audit partners has also been implemented.

External consultants

The group appoints external consultants to perform an annual review of the group's risk management processes. The purpose of this review is to continuously identify potential areas for improved risk management in line with developing international best practice.

Information and technology risk

IT risks are managed across the group in an integrated manner following the ERM framework. Group IT is the custodian of the group's IT policy framework and ensures explicit focus on and integration with the group's IT governance framework, which includes the governance of information security. The head of group IT facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with group-wide strategic or operational impact. A quarterly IT governance report, summarising the group-wide situation, is also delivered to the risk and compliance committees.

Going concern/business continuity risk

The board regularly considers and records the facts and assumptions on which it relies to conclude that BIHL will continue as a going concern. Reflecting on the year under review, the directors considered an opinion that adequate resources exist to continue business and that BIHL will remain a going concern in the foreseeable future. The board's statement to this effect is also contained in the director's statement of responsibility in the annual financial statements.

Compliance risk

Laws and regulations

BIHL considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The group compliance function, together with the compliance functions of the group businesses, facilitates the management of compliance through the analysis of statutory and regulatory requirements and monitoring the implementation and execution thereof.

Compliance with client mandates

Rules for clients' investment instructions are loaded on an order management system, which produces post-trade compliance reports that are continuously monitored. On a monthly basis, these reports are manually compared with the investment instructions. When a possible breach is detected, the portfolio manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and indicate when it will be rectified (which is expected to be as soon as possible). Further action may be taken, depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the Head of Investment Operations monthly.

Fraud risk

The BIHL Group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the group's Code of Ethics and underscores the organisational integrity of the group. The financial crime combating policy for the BIHL Group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime, and all offenders will be prosecuted.

The forensic services function at group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the group or the executive of a business cluster. Group forensic services is also responsible for the formulation of group standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.

The Chief Executive Officer of each business cluster is responsible for the implementation of the policy in his or her respective business and is accountable to the board of BIHL. Quarterly reports are submitted by group forensic services to the audit and risk committee on the incidence of financial crime and unlawful conduct in the group and on measures taken to prevent, detect, investigate and deal with such conduct.

Legal risk

Legal risk is the risk that the business will be exposed to contractual obligations that have not been provided for, particularly in respect of policy liabilities. The risk also arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of the group's counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations.

During the development stage of any new product and for material transactions entered into by the business, the legal resources of the business monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The group seeks to minimise uncertainties through continuous consultation with internal and external legal advisors, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

Lapse risk

Distribution models are used by the business to identify high-risk clients. Client relationship management programmes are aimed at managing client expectations and relationships to reduce lapse rates. The design of insurance products excludes material surrender value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Lapse assumptions are based on experience, adjusted for expected future changes on experience, to ensure that adequate provisions are made for lapses and surrenders.

Assumptions have been adjusted to allow for the expected increase in lapse rates from the negative economic impact of COVID-19 on the local economy. The adjustment was based on our lapse experience during the financial crisis of 2008 and allows for the expectation that COVID-19 will have a bigger impact on the economy relatively. Further prudence is provided for through compulsory margins prescribed by regulation.

Legislation risk

The risk is managed as far as possible through clear contracting. The business monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

Taxation risk

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after-tax returns, where applicable. The business' internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to influence changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

Reputation risk

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The audit and risk committee and board of directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

Strategy risk

The group's governance structure and various monitoring tools in place ensure that any events that affect the achievement of the group's strategy are escalated and addressed at the earliest opportunity. The board has no tolerance for any breach of guidance.

Group strategy is addressed on a continuous basis at various forums within the group, the most important of which are:

- The group's strategic direction and success is discussed and evaluated at an annual special strategic session of the BIHL board as well as at the scheduled board meetings during the year

BIHL INTEGRATED ANNUAL REPORT 2021

BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

General operational risks continued

Strategy risk continued

- As part of the annual budgeting process, the group businesses present their strategic plans and budgets to the BIHL board, which ensures that the business' strategies are aligned with the overall group strategy
- The BIHL board, which includes the Chief Executives of the various group businesses, meets on a regular basis to discuss, among others, the achievement of the business' and group's strategies. Any strategic issues are identified at these meetings and corrective actions are immediately implemented.

Long-term insurance risk

The investment committee and actuarial committee are established within the long-term insurance businesses. The principle aim of these committees is to ensure that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders. Separate asset portfolios are maintained for the different products and categories of long-term policy liabilities.

The business' long-term insurance operations are subject to the general operational risks described previously, but also to specific long-term insurance risks, which include the following:

Risk management: per type of risk

Underwriting risk

Underwriting risk is the uncertainty relating to the ultimate amount of net cash flows from premiums, commissions, claims and claim settlement expenses paid under a contract and timing risk, defined as uncertainty about the timing of the receipt and payment of those cash flows. Note 24 to the annual financial statements gives further information on the quantitative aspects of our insurance risks.

Insurance events are random and the actual number and amount of claims will vary from estimates. The business manages these risks through its product development process and underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for substandard risks. It also ensures adequate reinsurance arrangements are in place to limit exposure per policyholder and manages concentration of risks, the claims handling policy and adequate pricing and reserving. For life insurance products, half-yearly actuarial valuations are also performed to assist in the timely identification of experience variances.

Underwriting strategy

The following policies and practices are used by the business as part of its underwriting strategy to mitigate underwriting risk:

- All long-term insurance product additions and alterations are required to pass through the approval framework that forms part of the life insurance business' governance process. The statutory actuary approves the policy conditions and premium rates of new and revised products
- Generally, our retail life insurance products with substantial risk exposure are medically underwritten. The medical underwriting includes HIV tests. Those products that are not underwritten are subject to lower sum assured limits. For life insurance group risk, lives above free cover limits are medically underwritten
- Applications for risk cover are reviewed by experienced underwriters and evaluated against established standards. Retention limits are applied to limit the exposure per individual life
- Reasonable income replacement levels apply to disability insurance
- The experience of reinsurers is used where necessary for the rating of substandard risks
- The right to rerate premiums is retained as far as possible. The risk premiums for group risk business and most of the in-force individual risk business can be adjusted within 12 months should claims experience deteriorate to the extent that such an adjustment is considered necessary. Most of the individual new business is sold with a guarantee that risk premiums would not be increased for the first five to 15 years
- Risk profits are determined monthly
- Mortality and morbidity investigations are conducted at least annually. Product pricing and actuarial reserving considers the results of these investigations
- Expenses are continuously monitored and managed through the business' budgeting process.

The impact of COVID-19 on our underwriting has increased vigilance on clients with pre-existing conditions or comorbidities. Evidence so far shows that individuals with comorbidities such as hypertension, diabetes, asthma etc., are more likely to experience severe symptoms of COVID-19. We have also introduced stricter territorial underwriting to account for differing COVID-19 experience across countries possibly due to issues such as demographics, medical infrastructure, Government control measures and their effectiveness. The changes tend to lead to premium loadings for clients affected by these changes.

Reinsurance

Our reinsurance strategy aims to optimise risk profits while transferring mortality and morbidity risk above our risk appetite. Risk exposure above our preferred retention limits is therefore reinsured. Where risk is rejected under the reinsurance treaty with the main reinsurer, the risk is offered to another reinsurer on a facultative basis. Our reinsurance strategy is reviewed annually. Credit risk from the reinsurer(s) is managed by limiting the business' exposure to companies with high credit ratings as per the business' risk appetite. Credit ratings for the reinsurer(s) are monitored regularly.

Claims risk

The risk that the business may pay fraudulent claims (claims risk) is mitigated by training client service staff to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems.

Non-participating annuities

Interest rate risk is the principle financial risk in respect of non-participating annuities given the long-term profile of these liabilities. Liabilities are matched with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities is closely matched. The duration of annuity assets and liabilities is shown below.

	2021 Years	2020 Years
Liabilities	**7,2**	8,6
Assets	**6,4**	7,6

The effect of a 1% upward parallel change in interest rates is approximately P39 million (2020: P49 million) on operating profits while a 1% downward parallel shift has an impact of P51 million (2020: P68 million).

The table below indicates the impact of changes in assumptions.

P'000	Base value	Investment returns and inflation (1%)	Equity and property prices (10%)	Equity and property returns 1%	Maintenance expense (10%)	Dis-continuance rates (10%)	Mortality and morbidity rates (5%)
2021							
Individual life business	2 931 068	2 943 328	2 951 463	2 916 343	2 907 933	2 922 528	2 927 581
Annuity business	6 814 294	7 291 803	6 814 294	6 814 294	6 802 917	6 814 294	6 870 183
Group life business	585 313	585 313	585 313	585 313	585 313	585 313	585 313
Total	**10 330 675**	**10 820 444**	**10 351 070**	**10 315 950**	**10 296 163**	**10 322 135**	**10 383 077**
2020							
Individual life business	2 522 244	2 522 789	2 583 922	2 519 617	2 492 934	2 506 980	2 520 039
Annuity business	7 852 104	7 835 515	7 856 161	7 852 104	7 839 419	7 852 104	7 935 811
Group life business	465 569	465 569	465 569	465 569	465 569	465 569	465 569
Total	10 839 917	10 823 873	10 905 652	10 837 290	10 797 922	10 824 653	10 921 419

The above sensitivities are after considering the rerating of premiums but before the impact of reinsurance. The impact of reinsurance is not material for the disclosed sensitivities.

Sensitivity analysis of insurance risks

	Variance inflation factor after tax (P'000) 2021	2020
Base value	**1 852 166**	1 812 147
Increase risk discount rate by 1%	**1 765 977**	1 727 321
Decrease risk discount rate by 1%	**1 947 838**	1 896 581
Investment return (and inflation) decreased by 1% and with bonus rates and discount rates changing commensurately	**1 934 955**	1 873 763
Equities/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield	**1 837 573**	1 806 147
Increase expected return on equities/property assets by 1% per annum due to a change in the equity/property risk premium with no consequential change to discount rates	**1 862 965**	1 851 775
Non-commission maintenance unit expenses (excluding investment expenses) decrease by 10%	**1 902 276**	1 877 914
Discontinuance rates – life insurance business – decrease by 10%	**1 922 364**	1 870 956
Base mortality and morbidity rates decreased by 5% for life assurance business	**1 935 372**	1 877 094
Base mortality and morbidity rates decreased by 5% for life annuity business	**1 853 378**	1 812 150

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BASIS OF PRESENTATION AND ACCOUNTING POLICIES continued

For the year ended 31 December 2021

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Sensitivity analysis of insurance risks continued

Capital adequacy risk

The business must maintain a shareholders' fund that will be sufficient to meet obligations in the event of substantial deviations from the main assumptions affecting the business. A deterministic modelling process is used to simulate a number of investment scenarios which, in turn, is used to determine required capital levels that will ensure sustained solvency given a number of shock scenarios. Capital adequacy requirements were covered as indicated by the companies' shareholders' fund (as determined according to IPR3L – PCT for long-term insurers by the NBFIRA). The PCT for the life business is covered 10,01 times (2020: 5,89 times).

Concentration of insurance risk

Long-term insurance risks do not vary significantly in relation to the location of the risk insured. Concentration by amounts insured could, however, increase the relative portfolio risk. The tables below provide analyses of the concentration of insured benefits per individual life insured (excluding annuity payments) as well as per annuity payable per annum per life assured. The figures below represent the benefits payable on the occurrence of the insurance event and not the liability held in the balance sheet in relation to the insured benefit.

Benefits insured per individual life

	Number of lives		Concentration before reinsurance		Concentration after reinsurance	
	2021 P'000	2020 P'000	2021 %	2020 %	2021 %	2020 %
0 – 500	631 083	647 240	21	22	35	40
501 – 1 000	2 637	2 255	3	3	33	41
1 001 – 5 000	18 361	15 437	63	62	32	19
50 001– 8 000	760	690	8	8	–	–
>8 000	295	237	5	5	–	–
Total	653 136	665 859	100	100	100	100

Non-participating annuity payable

	Number of lives		Concentration before reinsurance		Concentration after reinsurance	
	2021 P'000	2020 P'000	2021 %	2020 %	2021 %	2020 %
0 – 20	3 133	2 929	6	6	6	6
21 – 40	2 450	2 346	11	11	11	11
41 – 60	1 582	1 585	12	13	12	13
61 – 80	1 240	1 227	14	14	14	14
81 – 100	952	938	13	14	13	14
>100	1 828	1 749	43	42	43	42
Total	11 185	10 774	100	100	100	100

Fair values

The carrying amounts and fair values of financial assets and financial liabilities are the same because financial assets and liabilities are either designated at fair value through profit or loss or have short-term duration such that their carrying amounts approximate fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. SEGMENTAL ANALYSIS

Basis of segmentation

For management purposes, the group is organised into two principal business areas based on their products and services and these make up the two reportable operating segments as follows:

- The life insurance segment which provides life insurance services to its customers through Botswana Life, a subsidiary of the group
- The asset management segment which provides asset management services to its customers through Bifm, a subsidiary of the group.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on their revenue, profit or loss after tax and return on equity value and is measured consistently with those of the group in the consolidated annual financial statements.

Segments that do not fall under the two key segments have been classified under 'other'. These comprise associate businesses (Letshego, NICO, Funeral Services Group, BIC Services and BIHL Insurance Company Limited) and the holding company. The associates offer diverse product and services which can be broken down into their own segments.

Inter-segment transactions that occurred during 2021 and 2020 between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segmental income, segment expenses and segment results will then include those transfers between business segments, which will be eliminated on consolidation.

Business segments

As at 31 December 2021, the group's operating businesses are organised and managed separately according to the nature of the products and services offered, with each segment representing a strategic business unit that offers varying products and serves different markets. This is the basis on which the group reports its segment information. The group is therefore organised into three principal areas of business – life insurance, asset management services and other.

Geographical segments

The group, under its 100% owned subsidiary, Bifm Holdings, has associates in Zambia. For management purposes, the Zambia operations are reported under Bifm Holdings. The group also has a 25,1% stake in a Malawian operation, NICO. These investments are not material and therefore the group only has significant operations in Botswana hence a geographical segment analysis has not been provided. The results for African Life Financial Services (Zambia) Limited, Aflife Holdings Zambia Limited and Nico Holdings, the associate companies, are disclosed in note 4.5.

Customer segments

No customer contributes 10% or more to the group's revenue.

The amounts used for segment reporting are measured using IFRS principles.

Other segments

Due to their immaterial nature the unit trust business, holding company and the corporate social investment trust are included in the 'other segments' column. There are no reportable segments under other.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1. SEGMENTAL ANALYSIS continued

1.1 Segment information by products and services

	Life business		Asset management		Other		Inter-segmental		Consolidated total	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000	2021 P'000	2020 P'000	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Premium revenue	3 084 928	2 879 625	–	–	–	–	–	–	3 084 928	2 879 625
Revenue from contracts with customers										
– Internal	–	–	2 125	2 141	–	–	(2 125)	(2 141)	–	–
– External	–	–	142 569	127 214	(14 809)	(18 279)	–	–	127 760	108 935
Investment income	748 879	636 246	5 866	(2 862)	579 863	488 664	(209 842)	(432 779)	1 124 766	689 269
Interest income using EIR	1 197	3 851	–	–	3 270	2 987	–	–	4 467	6 838
Profit on sale of subsidiary	–	–	–	–	(23 007)	1 396	–	–	(23 007)	1 396
Net (loss)/gain from financial assets held at fair value through profit or loss	(925 877)	(393 385)	(6 815)	6 584	(23 007)	(69 220)	–	19 218	(955 699)	(436 803)
Total net income	2 909 127	3 126 337	143 745	133 077	522 310	405 548	(211 967)	(415 702)	3 363 215	3 249 260
Depreciation	10 331	5 745	1 343	1 106	779	730	–	–	12 453	7 581
Amortisation and impairment	9 857	6 558	405	267	247	246	–	–	10 509	7 071
Right-of-use asset amortisation	5 216	5 253	1 420	2 113	1 582	2 209	(3 002)	(4 322)	5 216	5 253
Selling expenses	516 554	424 194	–	–	–	–	–	–	516 554	424 194
Net insurance benefits and claims	2 462 420	1 689 071	–	–	–	–	–	–	2 462 420	1 689 071
Change in policyholder liabilities under life insurance contracts	(403 330)	403 534	–	–	–	–	–	–	(403 330)	403 534
Change in liabilities under investment contracts	–	–	(349 195)	(3 912)	–	–	–	–	(349 195)	(3 912)
Profit before tax	159 354	384 725	74 527	70 325	129 256	375 956	(191 846)	(422 101)	171 291	408 905
Income tax expense	56 215	92 763	18 885	23 184	8 787	12 717	–	–	83 887	128 664
Profit after tax	103 139	291 962	55 642	47 141	120 469	363 239	(191 846)	(422 101)	87 404	280 241
Total assets	13 522 547	13 678 407	6 628 117	5 011 273	1 861 535	1 873 845	(3 884 722)	(3 486 845)	18 127 477	17 076 680
Total liabilities	11 101 600	11 542 490	6 128 558	4 560 312	1 220 644	1 232 202	(3 674 316)	(3 268 169)	14 776 486	14 066 835
– Capital expenditure	31 392	31 325	2 231	766	1 297	189	–	–	34 920	32 280
– Share of profit of associates	–	–	–	–	305 333	257 268	–	–	305 333	257 268
– Investment in associates and joint ventures	1 483 778	1 272 231	79 823	73 175	499 738	437 798	(90 641)	(69 210)	1 972 698	1 713 994
Return on equity value (%)	4,42	12,28	16,98	19,73	18,92	11,59	n/a	n/a	11,08	12,98

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1. SEGMENTAL ANALYSIS continued

1.2 Reconciliation of profit

	2021 P'000	2020 P'000
Segment profit	**233 881**	455 050
Life business	**159 354**	384 725
Asset management	**74 527**	70 325
Other segments	**129 256**	375 956
Inter-segment elimination	**(191 846)**	(422 101)
Profit before tax and associates	**171 291**	408 905
Share of associates and joint venture	**305 333**	257 268
Profit before tax for the year	**476 624**	666 173
Reconciliation of assets		
Segment operating assets		
Life business	**13 522 547**	13 678 407
Asset management	**6 628 117**	5 011 273
Other segments	**1 861 535**	1 873 845
Inter-segment elimination	**(3 884 722)**	(3 486 845)
Total assets	**18 127 477**	17 076 680
Reconciliation of liabilities		
Segment operating liabilities		
Life business	**11 101 600**	11 542 490
Asset management	**6 628 117**	5 011 273
Other segments	**1 220 644**	1 232 202
Inter-segment elimination	**(3 674 316)**	(3 268 169)
Total liabilities	**15 276 045**	14 517 796
Geographical information		
Revenue from external customers		
Botswana		
Life business	**3 084 928**	2 879 625
Asset management	**127 760**	108 935
Total	**3 212 688**	2 988 560

The revenue information above is based on the locations of the customers.

2. PROPERTY AND EQUIPMENT

	GROUP					
	Owner-occupied property P'000	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improve-ments P'000	Total P'000
2021						
Cost						
As at 1 January 2021	**135 042**	**47 437**	**22 656**	**3 952**	**58 876**	**267 963**
Additions	**–**	**8 843**	**3 130**	**–**	**4 451**	**16 424**
Disposals	**–**	**(1 771)**	**(138)**	**(1 181)**	**–**	**(3 090)**
As at 31 December 2021	**135 042**	**54 509**	**25 648**	**2 771**	**63 327**	**281 297**
Accumulated depreciation						
As at 1 January 2021	**6 234**	**40 926**	**18 173**	**3 273**	**20 096**	**88 702**
Current year charge	**1 380**	**3 750**	**1 419**	**292**	**5 612**	**12 453**
Disposals	**–**	**(1 771)**	**(138)**	**(1 181)**	**–**	**(3 090)**
As at 31 December 2021	**7 614**	**42 905**	**19 454**	**2 384**	**25 708**	**98 065**
Carrying amount						
As at 1 January 2021	**128 808**	**6 511**	**4 483**	**679**	**38 780**	**179 261**
As at 31 December 2021	**127 428**	**11 604**	**6 194**	**387**	**37 619**	**183 232**
2020						
Cost						
As at 1 January 2020	135 042	44 659	23 056	3 727	31 282	237 766
Additions	–	3 758	678	225	27 619	32 280
Discontinued operation	–	–	–	–	–	–
Disposals	–	(980)	(1 078)	–	(25)	(2 083)
As at 31 December 2020	135 042	47 437	22 656	3 952	58 876	267 963
Accumulated depreciation						
As at 1 January 2020	4 854	39 078	18 100	3 032	18 140	83 204
Current year charge	1 380	2 828	1 151	241	1 981	7 581
Discontinued operation	–	–	–	–	–	–
Disposals	–	(980)	(1 078)	–	(25)	(2 083)
As at 31 December 2020	6 234	40 926	18 173	3 273	20 096	88 702
Carrying amount						
As at 1 January 2020	130 188	5 581	4 956	695	13 142	154 562
As at 31 December 2020	128 808	6 511	4 483	679	38 780	179 261

The gross carrying amount of fully depreciated property and equipment that were still in use by the group amounted to P112,5 million (2020: P117,3 million) and P7,5 million (2020: P9,1 million) for the company.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2. PROPERTY AND EQUIPMENT continued

	COMPANY				
	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improvements P'000	Total P'000
2021					
Cost					
As at 1 January 2021	**7 718**	**2 328**	**179**	**5 145**	**15 370**
Additions	**106**	**473**	**–**	**718**	**1 297**
Disposals	**(1 771)**	**(138)**	**–**	**–**	**(1 909)**
As at 31 December 2021	**6 053**	**2 663**	**179**	**5 863**	**14 758**
Accumulated depreciation					
As at 1 January 2021	**7 634**	**2 011**	**179**	**2 673**	**12 497**
Current year charge	**72**	**151**	**–**	**556**	**779**
Disposal	**(1 771)**	**(138)**	**–**	**–**	**(1 909)**
As at 31 December 2021	**5 935**	**2 024**	**179**	**3 229**	**11 367**
Carrying amount					
As at 1 January 2021	**84**	**317**	**–**	**2 472**	**2 873**
As at 31 December 2021	**118**	**639**	**–**	**2 634**	**3 391**
2020					
Cost					
As at 1 January 2020	7 699	2 158	179	5 145	15 181
Additions	19	170	–	–	189
As at 31 December 2020	7 718	2 328	179	5 145	15 370
Accumulated depreciation					
As at 1 January 2020	7 523	1 907	179	2 158	11 767
Current year charge	111	104	–	515	730
As at 31 December 2020	7 634	2 011	179	2 673	12 497
Carrying amount	176	251		2 987	3 414
As at 31 December 2020	84	317	–	2 472	2 873

2. PROPERTY AND EQUIPMENT continued

2.1 Right-of-use assets

	GROUP P'000	COMPANY P'000
2021		
Cost		
As at 1 January 2021	**25 639**	**15 465**
Effects of modification of lease terms	**(4 823)**	**(4 821)**
Additions	**2 637**	**1 356**
As at 31 December 2021	**23 453**	**12 000**
Accumulated depreciation		
As at 1 January 2021	**10 125**	**4 418**
Current year depreciation	**5 216**	**1 582**
As at 31 December 2021	**15 341**	**6 000**
Carrying amount		
As at 1 January 2021	**15 514**	**11 047**
As at 31 December 2021	**8 112**	**6 000**
2020		
Cost		
As at 1 January 2020	25 639	15 465
Additions	–	–
As at 31 December 2020	25 639	15 465
Accumulated depreciation		
As at 1 January 2020	4 872	2 209
Current year depreciation	5 253	2 209
As at 31 December 2020	10 125	4 418
Carrying amount		
As at 1 January 2020	20 767	13 256
As at 31 December 2020	15 514	11 047

The group leases a number of offices across the country. As at 31 December 2021, a total of 10 offices were leased (10 in December 2020). The leases have remaining lease periods of between one year and five years as at 31 December 2021, inclusive of expected extension periods. The lease with the longest life is expected to expire on 30 October 2026. The lease modification was necessitated by the change in the lease payments and annual escalation clauses at renewal of the expired leases.

The following assumptions were made in arriving at the valuation:

- Initial term of leases – Ranging from one year to five years (2020: one year to five years)
- Option to extend in years – None in the revised contracts (2020: one year to three years)
- Annual lease escalation rate per annum – Ranging from 4,5% to 10% (2020: 5% to 10%)
- Incremental borrowing rate – 8,9% to 9,5% (2020: 4,45%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2. PROPERTY AND EQUIPMENT continued

2.2 Lease liability

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period.

	GROUP	COMPANY
	P'000	P'000
2021		
Lease liability as at 1 January 2021	16 858	12 568
Additional lease commitments at present value	2 637	1 356
Accretion of Interest	543	599
Effects of modification of lease terms	(4 823)	(4 821)
Lease payments	(5 981)	(2 099)
As at 31 December 2021	9 234	7 603
The maturity analysis of the lease liability is as follows:		
Within one year	4 439	2 080
Two to five years	5 287	6 459
More than five years	–	–
	9 726	8 539
Less: Finance charges component	(492)	(936)
Present value of lease liability	9 234	7 603
2020		
Lease liability as at 1 January 2020	21 431	14 111
Accretion of interest	861	646
Lease payments	(5 434)	(2 189)
As at 31 December 2020	16 858	12 568
The maturity analysis of the lease liability is as follows:		
Within one year	5 626	2 249
Two to five years	11 991	11 765
More than five years	791	–
	18 408	14 014
Less: Finance charges component	(1 550)	(1 447)
Present value of lease liability	21 431	14 111

3. INTANGIBLE ASSETS

	GROUP		
	Goodwill P'000	Computer software P'000	Total P'000
2021			
Cost			
As at 1 January 2021	114 923	124 090	239 013
Additions	–	18 496	18 496
Disposals	–	(2 293)	(2 293)
As at 31 December 2021	114 923	140 293	255 216
Accumulated amortisation and impairment			
As at 1 January 2021	51 931	87 993	139 924
Current year amortisation	–	10 509	10 509
Disposals	–	(2 293)	(2 293)
As at 31 December 2021	51 931	96 209	148 140
Carrying amount			
As at 1 January 2021	62 992	36 097	99 089
As at 31 December 2021	62 992	44 084	107 076
2020			
Cost			
As at 1 January 2020	114 923	124 624	239 547
Additions	–	1 934	1 934
Disposals	–	(2 468)	(2 468)
As at 31 December 2020	114 923	124 090	239 013
Accumulated amortisation and impairment			
As at 1 January 2020	51 931	83 390	135 321
Current year amortisation	–	7 071	7 071
Disposals	–	(2 468)	(2 468)
As at 31 December 2020	51 931	87 993	139 924
Carrying amount			
As at 1 January 2020	62 992	41 234	104 226
As at 31 December 2020	62 992	36 097	99 089

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

3. INTANGIBLE ASSETS continued

	COMPANY	
	Computer software P'000	Total P'000
2021		
Cost		
As at 1 January 2021	12 081	12 081
As at 31 December 2021	12 081	12 081
Accumulated amortisation and impairment		
As at 1 January 2021	11 297	11 297
Current year amortisation	247	247
As at 31 December 2021	11 544	11 544
Carrying amount		
As at 1 January 2021	784	784
As at 31 December 2021	537	537
2020		
Cost		
As at 1 January 2020	12 081	12 081
As at 31 December 2020	12 081	12 081
Accumulated amortisation and impairment		
As at 1 January 2020	11 051	11 051
Current year amortisation	246	246
As at 31 December 2020	11 297	11 297
Carrying amount		
As at 1 January 2020	1 030	1 030
As at 31 December 2020	784	784

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to one cash-generating unit (asset management) which is equivalent to one of two operating segments of the group. Goodwill was impaired by Pnil (2020: Pnil) for the asset management segment during the year.

Asset management business

	2021 P'000	2020 P'000
Carrying amount of goodwill		
Asset management business	62 992	62 992
Total	62 992	62 992

Management estimates that the recoverable amount of the asset management cash-generating unit exceeds or equals the carrying amount. Management estimates include a new review of the performance of the cash-generating unit when compared to estimates applicable at the original recognition of the goodwill. The performance of the asset management business has shown a positive trend on a year-on-year basis.

3. INTANGIBLE ASSETS continued

Asset management business

The recoverable amount of the asset management business unit was determined based on the value in use calculation using the cash flow projections on financial budgets approved by senior management covering a five-year period and extrapolated to 10 years based on economic and specific sector growth using a perpetual growth of 3,8% (2020: 3,8%) thereafter. The cash flows are extrapolated to a 10-year period to reflect the long-term plans of the group. A pre-tax group-specific risk-adjusted discount rate of 16,3% (2020: 15%) is used. The projected cash flows are determined by budgeted margins based on past performances, management expectations and market developments as well as the impact of COVID-19 on AUM.

The key assumptions used for the impairment calculations of the asset management business are:

	2021 %	2020 %
Investment income/surplus return	2,1	5,6
Investment growth on AUM (after tax)	5,2	5,3
Net inflows as a % of AUM	0,9	0,7

These growth rates are based on published industry research and take into account the expected negative impact of the COVID-19 pandemic.

Sensitivity to changes in assumptions

For the asset management business, a reasonably possible change in the investment market conditions assumption will cause the carrying amount to exceed the recoverable amount. The actual recoverable amount exceeds its carrying amount by P284 million (2020: P202 million). Management recognised the fact that current investment market conditions reflect stable and profitable margins. Unfavourable conditions could materially affect the growth margins of these markets. A reduction of 2% in the funds flow and a 3% reduction in investment growth, due to risk-averse decisions in order to preserve capital as a result of COVID-19, as a percentage of AUM, would result in the reduction in the recoverable amount of the asset management business by P42 million (2020: P35 million).

4. INVESTMENTS

Fair values

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Investments designated at fair value through profit or loss				
At the beginning of the year	13 433 555	13 226 448	–	–
Net contributions	1 751 022	643 910	–	–
Fair value adjustments on investments	(972 658)	(436 803)	–	–
At the end of the year	14 211 919	13 433 555	–	–

4.1 Bonds, notes, policy loans and similar securities

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Designated at fair value through profit or loss				
Bonds (Government, public authority, listed and unlisted corporates)	8 663 449	9 282 087	–	–
Money market instruments	3 144 625	2 109 039	–	–
Equity investments (note 4.2)	2 403 845	2 042 429	–	–
	14 211 919	13 433 555	–	–

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

4. INVESTMENTS continued

4.1 Bonds, notes, policy loans and similar securities continued

On 11 October 2019, Bifm transferred the pooled funds to newly formed and registered collective investment undertaking (CIU), trusts effectively moving all third-party investments off the Bifm balance sheet and retaining the investments and units directly owned by Bifm. The CIU funds are now consolidated in the group's financials where the group has invested more than 20% and a corresponding liability to the investors is reflected in note 8. During 2021, additional funds were transferred into the CIU.

The bonds are made up of both listed and unlisted bonds. Listed bonds have fixed interest rates which range from 4,5% to 11,2% (2020: 1,3% to 11,2%). Bond repayment terms range between 0 to 27 years (2020: 0 to 28 years) for all listed and unlisted bonds.

The maximum credit exposure of the financial assets designated at fair value through profit or loss amounts to P11,8 billion (2020: P11,4 billion). The cumulative change in fair value of the financial assets designated at fair value through profit or loss attributable to the changes in the credit risk amounts to a loss of P16 million (2020: P32 million) and the change for the current year is a gain of P16 million, an improvement from a loss of P32 million in 2020.

Fair value measurement

Listed bonds

The closing prices at year-end have been used to value these investments.

Unlisted bonds

The fair values of unlisted bonds have been calculated by discounting expected future cash flows at the risk-adjusted interest rates applicable to each financial asset. The cash flows for the unlisted bonds are determined with reference to contractual rates of return and the timing of the cash flow. Refer to note 25 for the additional disclosures. The risk assumed is specific to each instrument and is used to determine the risk premium per instrument. The risk premium is the extra risk attributable to an unlisted instrument due to the factors arising from it not being traded on the open market. The risk premium for the unlisted bonds and notes held by the company ranges from 150 to 694 basis points in the current year (2020: 150 to 694 basis points) on the basis of the risk surrounding the operations of the company including lower demand as a result of imposed movement restrictions in order to curb the spread of COVID-19. The risk premium has been used as a risk adjustment to the Government risk-free rate.

For unlisted bonds, interest rates are fixed, with coupon rates falling between 5,2% and 11% (2020: 5,2% and 11%) annually, calculated and compounded on a quarterly basis. Bond repayment terms range between 0 to 27 years (2020: 0 to 28 years) for all listed and unlisted bonds.

Money markets constitute funds invested in call accounts. The average market interest rate for money market instruments was 1,3% for 2021 (2020: 1,7%). All money market instruments are of a short-term nature, being exercisable within one year of the year-end.

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Sectoral analysis for bonds, money market and equity instruments				
Consumer discretionary	**1 746 341**	420 983	**–**	–
Financials	**3 839 263**	4 026 896	**–**	–
Education	**34 984**	31 784	**–**	–
Property	**972 208**	911 008	**–**	–
Tourism	**113 737**	94 125	**–**	–
Offshore foreign equities	**1 600 827**	2 763 345	**–**	–
Government	**5 003 099**	5 185 414	**–**	–
	13 311 710	13 433 555	**–**	–

4. INVESTMENTS continued

4.2 Equity investments

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Listed in Botswana	**532 832**	502 570	**–**	–
Listed in foreign markets	**1 594 122**	1 361 002	**–**	–
Unlisted	**276 891**	178 857	**–**	–
	2 403 845	2 042 429	**–**	–

Listed equity investments

The closing price at year-end has been used to value these investments.

Unlisted equities

The fair value of unlisted equities is determined by reference to the underlying fair value of the net asset value held in the investee company.

For direct equity instruments, the DCF model takes into account the estimated cash flows and a risk adjustment discount rate that incorporates marketability and liquidity restrictions.

Unlisted units in funds

The fair value of the assets is calculated based on units held and unit prices provided by the fund managers. The underlying funds in which the company invests in are unlisted and valued using DCF and price earnings methods with significant inputs that are not based on observable market data hence the classification under Level 3.

Other loans

The loans are advances to public-private partnerships which are partnerships between private companies and the Government of Botswana for construction projects. The interest rate on the loans is based on the prime lending rate in Botswana and the terms of the loans range from 10 years to 17 years. As at year-end, the prime rate was 4,25% (2020: 4,25%).

The fair value of the loans is based on assessment of risk in comparison to similar market-based instruments. The risk assumed is specific to each instrument and is used to determine risk premium per instrument. The risk premium is the extra risk attributable to an unlisted instrument due to the factors arising from it not being traded on the open market and credit risk of the borrower. The average risk premium for the other loans held by the group is nil (2020: nil). The risk premium has been used as a risk adjustment to the Government risk-free rate.

4.3 Other loan advances

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Opening balance	**36 132**	50 000	**–**	–
Interest charged for the year	**4 573**	5 085	**–**	–
Interest received during the year	**(3 527)**	(5 085)	**–**	–
Capital repayment	**(6 000)**	(10 698)	**–**	–
Impairment	**–**	(3 170)	**–**	–
Impairment reversal	**779**	–	**–**	–
Closing balance as at 31 December	**31 957**	36 132	**–**	–

The group granted a loan with a principal amount of P50 million to Babereki Investments Proprietary Limited repayable over 10 years from 2016. The loan is secured through a cession of the loan book and guarantee and subordination agreement with Botswana Public Employees Union (BOPEU). The interest rate is a fixed interest rate of 12% per annum payable quarterly with payments being made on time. The loan was impaired in the prior year by P3,2 million using the general approach (stage 2) to allow for the reduction risk of BOPEU not being able to repay its loan as it has continued to honour its repayment obligation. In the current year, there was an impairment reversal of P0,8 million as a result of capital repayment of P6 million and a reduction in time to maturity which has reduced our overall exposure resulting in lower ECLs.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

4. INVESTMENTS continued

4.4 Investment property and investments in unlisted property funds

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
At the beginning of the year	**1 066 040**	850 909	**–**	–
Purchase of investments	**122 215**	207 605	**–**	–
Fair value (losses)/gains	**(4 770)**	7 526	**–**	–
	1 183 485	1 066 040	**–**	–
Physical properties held	**10 160**	10 160	**–**	–
Investments in unlisted property companies	**1 173 325**	1 055 880	**–**	–
Investments properties				
Opening balance as at 1 January	**10 160**	121 615	**–**	–
Transfer to unitised funds*	**–**	(111 455)	**–**	–
Closing balance as at 31 December	**10 160**	10 160	**–**	–

* *The transfer out of assets relates to physical properties that were transferred and registered under the CIU property fund as requested by the Regulator. The physical properties are Plot 70656 (P5,6 million) and Plot 70657 (P4,6 million), all in Gaborone.*

Investments in unlisted property companies are held at fair value through profit or loss.

The group investment properties consist of commercial properties.

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Rental income derived from investment properties	**20 708**	17 814	**–**	–
Direct operating expenses (including repairs and maintenance) generating rental income	**(5 605)**	(4 947)	**–**	–

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Investments in property funds				
Opening balance as at 1 January	**1 055 880**	504 992	**–**	–
Additions	**122 215**	431 907	**–**	–
Transfer from investment properties	**–**	111 455	**–**	–
Fair value (losses)/gains	**(4 770)**	7 526	**–**	–
Closing balance as at 31 December	**1 173 325**	1 055 880	**–**	–
Analysed as follows:				
Shareholder portion	**10 160**	10 160	**–**	–
Policyholder portion	**1 173 325**	1 055 880	**–**	–
Total	**1 183 485**	1 066 040	**–**	–

Refer to note 25 for the determination of fair values of listed and unlisted investments in property funds.

Investment properties and investments in unlisted property funds are stated at fair value which has been determined based on valuations performed by Knight Frank, MG Properties Proprietary Limited, Wragg Proprietary Limited and Kwena Property Services Proprietary Limited, who are accredited independent valuers, as at 31 December 2021 and 31 December 2020, for the current and previous years, respectively. These valuers are specialists in valuing these types of investment properties.

4. INVESTMENTS continued

4.4 Investment property and investments in unlisted property funds continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are no restrictions on the realisability of the investment properties or the remittance of income and proceeds of disposal. There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

In calculating the market value of commercial properties, the valuation method being a DCF approach, had been adopted whereupon the current contractual annual rentals are netted off against relevant expenses (including normal repairs and maintenance, operating costs, management/collection commission fees, insurance and rates among others). The valuation also includes estimated future rental income, which has been scaled down due to slow economic activity as a result of the COVID-19 pandemic, for the contract period and any applicable extensions. The resulting net income is discounted at a market-related discount rate to arrive at the market value. The following primary inputs have been used:

	2021 %	2020 %
Inflation rate (%)	**8,7**	3,0
Capitalisation rates	**7,8**	8,0 – 12,5
Long-term vacancy rates	**0 – 3**	0 – 20

The valuations have been undertaken on the assumption that the properties are free of any structural fault, rot, infestation or defects of any other nature, including inherent weaknesses due to the use in construction of deleterious materials.

Valuations and appraisals were carried out in accordance with the RICS Appraisal and Valuation Standards (The Red Book), by valuers who conform to its requirements, and with regard to relevant statutes or regulations and with reference to market evidence of transaction prices for similar properties.

Properties are valued individually and valuations and appraisals are carried out on a basis appropriate to the purpose for which they are intended and in accordance with the relevant definitions, commentary and assumptions contained in the RICS Appraisal and Valuation Standards (The Red Book).

The fair value of the investment in unlisted property companies is determined with reference to the fair value of the underlying property as detailed above.

For direct equity instruments, the DCF model takes into account the estimated cash flows and a risk adjustment discount rate that incorporates marketability and liquidity restrictions.

Investments in property funds are valued by revaluation of the underlying property(ies) using the same inputs as the above.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

4. INVESTMENTS continued

4.5 Interest in associates and joint ventures

	GROUP		GROUP								
	Joint ventures		Associates								
	Khumo Property Asset Management	Teledimo	The Minor Hotel Group Gaborone	Funeral Services Group	Plot 21 Invest-ments	Bongwe	African Life Financial Services (Zambia) Limited	Aflife Holdings Zambia Limited	Nico Holdings Limited	Letshego Holdings Limited	Total
2021											
Carrying amount (P'000)	11 325	144 922	44 434	108 906	3 552	6 276	57 942	(5 304)	226 634	1 374 012	1 972 699
Interest in issued share capital											
Shareholders' fund (%)	50,00	50,00	20,00	37,62	33,00	33,00	49,00	49,00	25,10	28,05	
Share of earnings after tax for the current year (P'000)	3 531	22 669	(687)	37 732	–	(121)	8 247	2 379	43 983	187 600	305 333
Foreign currency translation differences	–	–	–	2 194	–	–	29 383	–	913	92 640	125 130
Change in reserves in associates and other comprehensive income	(991)	–	–	1 477	–	–	(25 321)	(8 247)	–	8 627	(24 455)
Distributions received (P'000)	(3 055)	(19 550)	–	(24 998)	–	(704)	–	–	(5 828)	(93 169)	(147 304)
Total assets and liabilities of the joint ventures and associates (P'000)											
Non-current assets	1 154	218 299	115 340	229 408	–	88 818	70 040	62 397	229 758	465 081	1 480 295
Current financial assets, excluding cash and cash equivalents	9 646	114 376	12 439	44 791	–	5 476	57 723	133	(60 164)	13 321 364	13 505 784
Cash and cash equivalents	12 051	95 916	20 131	101 800	–	17 249	3 474	157	60 164	2 272 996	2 583 938
Non-current financial liabilities excluding trade and other payables	–	(8 761)	(8 357)	(14 254)	–	(92 392)	(2 014)	(18 699)	1 953	(8 682 690)	(8 825 214)
Current financial liabilities excluding trade and other payables and provisions	(16 526)	(84 660)	(1 175)	(10 084)	–	(7 574)	(5 405)	(14 113)	–	(904 889)	(1 044 426)
Current liabilities including trade and other provisions	(1 067)	(32 346)	(20 921)	(42 237)	–	(2 034)	(21 569)	(9 007)	–	(965 860)	(1 095 041)
Shareholders' equity	5 258	302 824	117 457	309 424	–	9 543	102 249	20 868	231 711	5 506 002	6 605 336
Carrying amount (P'000)	11 325	144 922	44 434	108 906	3 552	6 276	57 942	(5 304)	226 634	1 374 012	1 972 699
Calculated carrying value	2 629	151 412	23 491	116 312	–	3 149	50 102	10 225	58 159	1 544 434	1 959 913
Effects of fair value adjustments and goodwill at initial recognition	8 696	(6 490)	20 943	(7 406)	3 552	3 127	7 840	(15 529)	168 475	(170 422)	12 786
Summarised statement of profit or loss of the joint ventures and associates (P'000)											
Revenue	28 077	283 705	92 498	292 376	–	5 411	81 654	16 922	1 625 473	2 346 758	4 772 874
Interest income	125	10 211	1 854	4 456	–	8 366	7 623	10 087	416 258	–	458 980
Cost of sales	–	–	(7 038)	(48 602)	–	(4 919)	–	–	(13 727)	–	(74 286)
Administration expenses, excluding depreciation and amortisation	(18 658)	(239 748)	(65 203)	(93 744)	–	(1 621)	64	–	(916 974)	(1 201 320)	(2 537 204)
Depreciation and amortisation	(232)	–	(5 330)	(13 735)	–	–	(3 903)	–	–	–	(23 200)
Finance costs including interest expense	–	–	–	(779)	–	(7 368)	–	–	(9 002)	1 306	(15 843)
Profit/loss before tax	9 312	54 168	16 781	139 972	–	(131)	85 438	27 009	1 102 028	1 146 744	2 576 447
Share of loss of joint ventures	–	–	–	(523)	–	–	–	–	–	–	(523)
Income tax expense	(2 249)	(8 829)	(2 861)	(39 146)	–	(238)	(14 407)	–	(580 493)	(417 243)	(1 065 466)
Profit/loss for the year (continuing operations)	7 063	45 339	13 920	100 303	–	(369)	71 031	27 009	521 535	729 501	1 515 332
Group's share of profit/loss for the year	3 531	22 669	(687)	37 732	–	(121)	8 247	2 379	43 983	187 600	305 333

The statement of financial position and the statement of comprehensive income show the total amounts as extracted from the respective financial statements of the entities. Net assets are shared on the basis of absolute shareholdings, without excluding minority interests.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

4. INVESTMENTS continued

4.5 Interest in associates and joint ventures continued

	GROUP		GROUP								
	Joint ventures		Associates								
	Khumo Property Asset Management	Teledimo	The Minor Hotel Group Gaborone	Funeral Services Group	Plot 21 Invest-ments	Bongwe	African Life Financial Services (Zambia) Limited	Aflife Holdings Zambia Limited	Nico Holdings Limited	Letshego Holdings Limited	Total
2020											
Carrying amount (P'000)	11 840	141 803	45 121	92 501	3 552	7 101	45 633	564	187 566	1 178 314	1 713 994
Interest in issued share capital											
Shareholders' fund (%)	50,00	50,00	20,00	37,62	33,00	33,00	49,00	49,00	25,10	28,05	
Share of earnings after tax for the current year (P'000)	3 191	21 140	1 000	22 911	–	682	6 212	73	44 268	157 791	257 268
Foreign currency translation differences	–	–	–	(3 418)	–	–	(11 821)	–	(7 047)	(48 309)	(70 595)
Change in reserves in associates	–	–	2 636	1 039	–	–	(43 911)	–	–	6 270	(33 966)
(Disposal)/additional investment in associates, joint ventures and subsidiaries	–	–	–	2 784	–	–	–	–	(151)	–	2 633
Distributions received (P'000)	(2 775)	(9 500)	–	(15 334)	(384)	–	–	–	(8 697)	(69 279)	(105 969)
Total assets and liabilities of the joint ventures and associates (P'000)											
Non-current assets	5 216	220 247	115 340	218 711	–	140 379	51 136	45 055	178 561	318 747	1 293 393
Current financial assets, excluding cash and cash equivalents	4 733	112 998	12 438	36 378	–	15 480	70 231	4 678	2 891	10 722 827	10 982 654
Cash and cash equivalents	10 457	133 227	20 131	65 438	–	–	2 632	173	40 781	1 043 633	1 316 472
Non-current financial liabilities excluding trade and other payables	4 598	(8 795)	(8 357)	(13 279)	–	(140 126)	(3 116)	(18 223)	40 442	(5 728 194)	(5 875 050)
Current financial liabilities excluding trade and other payables and provisions	6 000	(97 168)	(1 175)	(12 429)	–	(5 518)	(16 045)	(4 744)	9 632	(901 339)	(1 022 787)
Current liabilities	4 613	(26 708)	(20 921)	(34 929)	–	–	(22 030)	(12 202)	–	(728 202)	(840 379)
Shareholders' equity	35 617	333 801	117 457	259 890	–	10 215	82 806	14 737	272 308	4 727 472	5 854 302
Carrying amount (P'000)	11 840	141 803	45 121	92 501	3 552	7 101	45 633	564	187 566	1 178 314	1 713 995
Calculated carrying value	17 809	166 901	23 491	97 693	–	3 371	40 575	7 221	68 349	1 326 056	1 751 466
Effects of fair value adjustments and goodwill at initial recognition	(5 969)	(25 098)	21 630	(5 192)	3 552	3 730	5 058	(6 657)	119 217	(147 742)	(37 471)
Summarised statement of profit or loss of the joint ventures and associates (P'000)											
Revenue	22 885	209 090	92 498	196 507	–	12 243	80 089	15 877	1 625 473	2 147 268	4 399 667
Interest income	128	4 700	1 854	3 241	–	16 148	7 341	(684)	416 258	–	446 376
Cost of sales	–	–	(7 038)	(25 526)	–	(12 298)	–	–	(13 727)	–	(58 589)
Administration expenses, excluding depreciation and amortisation	(13 685)	(166 085)	(65 203)	(77 556)	–	(1 991)	(40 171)	(28 399)	(916 974)	(1 115 057)	(2 425 120)
Depreciation and amortisation	(925)	–	(5 330)	(12 345)	–	–	(1 364)	–	–	–	(19 964)
Finance costs including interest expense	(284)	–	–	(929)	–	(13 068)	–	–	(9 002)	(7 203)	(30 486)
Profit/loss before tax	8 119	47 706	16 782	83 392	–	1 034	45 895	(13 206)	1 102 028	1 025 008	2 311 884
Share of loss of joint ventures	–	–	–	1 690	–	–	–	–	–	–	1 690
Income tax expense	(1 736)	(8 110)	(2 861)	(24 006)	–	(407)	(17 424)	1 000	(580 493)	(408 274)	(1 042 311)
Profit/loss for the year (continuing operations)	6 383	39 596	13 921	61 076	–	627	28 471	(12 206)	521 536	616 734	1 271 264
Group's share of profit/loss for the year	3 191	21 140	1 000	22 911	–	682	6 212	73	44 268	157 791	257 268

The statement of financial position and the statement of comprehensive income show the total amounts as extracted from the respective financial statements of the entities. Net assets are shared on the basis of absolute shareholdings, without excluding minority interests.

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For the year ended 31 December 2021

4. INVESTMENTS continued

4.5 Interest in associates and joint ventures continued

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Interest in associates/joint ventures and subsidiaries (subsidiaries at company level)				
Carrying amounts at the beginning of the year	**1 713 994**	1 664 623	**379 569**	357 602
Share of results after tax	**305 333**	257 268	**–**	–
Impairment of a subsidiary*	**–**	–	**(22 443)**	–
Dividend received	**(147 304)**	(105 969)	**–**	–
Purchase/(disposal) of associates, joint ventures and subsidiaries**	**–**	2 633	**–**	21 967
Change in reserves in associates	**(24 455)**	(33 966)	**–**	–
Foreign currency translation differences	**125 130**	(70 595)	**–**	–
Carrying amount at the end of the year	**1 972 698**	1 713 994	**357 126**	379 569

* *As at 31 December 2021, the carrying amount of the investment in BIHL Share Scheme Trust exceeded the net asset value of the share scheme by P22 million. BIHL company owns 100% of the Share Scheme Trust. The impairment arose as a result of significant losses incurred in the current year. Management have determined the recoverable amount of the share scheme to be P15 million which is the net asset value. The net asset value is reflective of the value in use of the underlying asset.*

** *The P22 million shown as an increase in investment under the company in 2020 relates to an amount that was owed by a subsidiary (BIHL Share Scheme Trust) to the holding company which was recapitalised into an equity investment.*

The group, through its 100% owned subsidiary Bifm Holdings, has a 50% interest in Khumo, a jointly controlled entity involved in property management. The group's interest in Khumo is accounted for using the equity method in the consolidated annual financial statements. The year-end for the jointly controlled entity is 31 October. The previous table illustrates the summarised financial information of the joint venture, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated annual financial statements.

The group, through its 100% owned subsidiary Bifm Holdings, has invested in various associates being Plot 21, Bongwe, and African Life Financial Services (Zambia) Limited and Aflife Holdings Zambia Limited. The previous table shows the group's percentage shareholding and total summarised financial interest.

The group, through its 62,9% owned subsidiary KYS, has a 20% interest in The Minor Hotel Group Gaborone Proprietary Limited.

The group, through its 100% owned subsidiary Bifm Holdings Limited, has a 49% interest in African Life Financial Services (Zambia) Limited. African Life Financial Services (Zambia) Limited is based in Zambia. The entity is involved in the provision of asset management and employee benefits administration. The group's interest in African Life Financial Services (Zambia) Limited is accounted for using the equity method in the consolidated annual financial statements. The entity is strategic to the group's activities.

The group, through its 100% owned subsidiary Botswana Life, has a 28,05% (2020: 28,05%) interest in LHL, which is involved in the provision of short- to medium-term secured and unsecured loans in the public, quasi-public and private sectors. The company is incorporated in Botswana and has subsidiaries in various countries in Africa. LHL is a public company listed on the BSE. The group's interest in LHL is accounted for using the equity method in the consolidated annual financial statements. The entity is strategic to the group's activities. The table above illustrates the summarised financial information of the group's investment in LHL.

The company has a 25,1% interest in NICO. The latter group operates in five countries including Malawi, Tanzania, Uganda, Zambia and Mozambique and approximately 70% of NICO operations remain in Malawi. NICO operates its business through six segments which are general insurance business, life insurance and pensions business, banking business, asset management, information technology and investment holding. It is also involved in the hospitality industry and real estate industry as portfolio investments through some of its subsidiaries and associate companies. The company is incorporated in Malawi and is a public company listed on the Malawi Stock Exchange. The group's interest in NICO is accounted for using the equity method in the consolidated annual financial statements while in the company's annual financial statements it is accounted for at cost. The entity is strategic to the group's activities.

4. INVESTMENTS continued

4.5 Interest in associates/joint ventures and subsidiaries continued

The group, through its 100% owned subsidiary Botswana Life, owns 37,62% (2020: 37,62%) of Funeral Services Group Limited (FSG). FSG is involved in the manufacturing and distribution of coffins and caskets, providing funeral services and establishing and managing private cemeteries. The company is incorporated in Botswana and has subsidiaries in Zambia and South Africa. Until 3 December 2015, FSG was a public company listed on the BSE. The group's interest in FSG is accounted for using the equity method in the consolidated annual financial statements. The entity is strategic to the group's activities.

The fair value of LHL was P1,434 million (2020: P1,204 million). The recoverable amount was determined based on a fair value calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to cash flow projections is 16,5% (2020: 16,5%) and cash flows beyond the five-year period are extrapolated using a 9,0% growth rate (2020: 3,0%) which is supported by the improved growth rate for the microlending industry. It was concluded that the fair value less costs of disposal exceeded the carrying value. As a result of this analysis, management has recognised an impairment charge of Pnil in the current year (2020: Pnil) and foreign currency translation gains of P92 million were recorded against losses of P60,1 million recorded in 2020.

The fair value of NICO was P232 million (2020: P174 million). The recoverable amount was determined based on a fair value calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services for NICO Life and increased performance for NBS Bank. The pre-tax discount rate applied to cash flow projections is 33% (2020: 33%) and cash flows beyond the five-year period are extrapolated using a 19,5% growth rate (2020: 3,0%) that is the same as the long-term average growth rate for the insurance industry. It was concluded that the fair value less costs of disposal exceeded the carrying value. As a result of this analysis, management has recognised an impairment charge of Pnil in the current year (2020: Pnil) and foreign currency translation gains of P0,913 million (2020: P7 million) have been recognised.

The company has joint control in Teledimo Proprietary Limited, which holds a 100% investment in a short-term insurance company, BIC. Teledimo is a non-operating holding company and only has one investment i.e. the investment in BIC. BIC is incorporated in Botswana and is a private company. The group's interest in BIC is accounted for as a joint venture using the equity method in the consolidated annual financial statements while in the company's annual financial statements it is accounted for at cost.

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4. INVESTMENTS continued

4.6 Non-current assets held for sale

BIHL Insurance Company Limited

On 16 May 2017, the board of directors of Botswana Insurance Holdings Limited approved the disposal of 100% of its stake in BIHL Insurance Company Limited t/a Legal Guard (LG) to BIC an associate of the group. The transaction was effected on 30 September 2019 following approval by relevant regulatory bodies. The sale condition had a contingent consideration of 1,5 times the underwriting profit achieved by LG in the years ended 31 December 2019 and 2020 payable to BIHL. An additional P1,4 million was booked in 2020 to align to this condition based on the financial results. As at 31 December 2021, the amount outstanding from the purchaser was Pnil (2020: P4,1 million). The table below shows the impact of the contingent consideration received on cash flows.

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Effect on cash flow				
Consideration on disposal of subsidiary	**–**	1 396	**–**	1 396
Cash consideration received	**(4 151)**	(4 388)	**(4 151)**	(4 388)
Net movement	**(4 151)**	(2 992)	**(4 151)**	(2 992)
Contingent consideration as at 1 January	**4 151**	7 143	**4 151**	7 143
Contingent consideration not yet received	**–**	4 151	**–**	4 151

5. INSURANCE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Insurance receivables				
Due from policyholders, agents and brokers	**106 399**	173 989	**–**	–
Due from reinsurers	**68 715**	34 297	**–**	–
Impairment allowances	**(3 253)**	(11 782)	**–**	–
	175 114	208 286	**–**	–
Other receivables	**138 979**	106 471	**443**	443
Impairment allowances	**(33 368)**	(30 558)	**–**	–
	105 611	75 913	**443**	443
Insurance and other receivables	**280 725**	284 199	**443**	443

Insurance receivables are non-interest-bearing and are generally on 30-day terms.

Other receivables relate to fees receivable, commission advances and broker loans.

The ageing analysis of these receivables is as follows:

- During 2020, the group issued COVID-19 relief loans to brokers and agents to cushion the effects of the lockdowns and curfews which impacted their ability to earn commission. The group also extended a moratorium on the repayment of the loans which deviated from the normal credit terms. The loss allowance provision for this year was adjusted to include the effects of COVID-19 and is determined as detailed in note 24.7.

5. INSURANCE AND OTHER RECEIVABLES continued

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Impaired	**36 621**	42 340	**–**	–
Neither past due nor impaired	**127 319**	100 994	**443**	4 494
Past due but not impaired:	**164 823**	183 205	**–**	–
Less than 30 days	**111 753**	78 382	**–**	–
30 – 60 days	**25 483**	47 399	**–**	–
61 – 90 days	**23 922**	32 340	**–**	–
Over 90 days	**3 665**	25 084	**–**	–
	292 142	284 199	**443**	4 494

Impairment movement

As at 31 December 2021, outstanding premiums with a nominal value of P3,3 million (2020: P11,8 million) were impaired and additionally provided for. Movement in the impairment provision was as follows:

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
As at 1 January	**11 782**	3 604	**–**	–
Provision reversed	**(3 062)**	–	**–**	–
Provision raised	**–**	8 178	**–**	–
Write-off	**(5 467)**	–	**–**	–
As at 31 December	**3 253**	11 782	**–**	–

The carrying values of insurance and other receivables are reasonable approximations of their fair values due to the short-term nature thereof.

Other amounts receivable include trade and other receivables, agents and brokers advances. Other amounts receivable are stated after an impairment provision of P33,4 million (2020: P30,6 million).

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
As at 1 January	**30 558**	22 850	**–**	–
Provision raised	**2 810**	7 708	**–**	–
As at 31 December	**33 368**	30 558	**–**	–

6. STATED CAPITAL

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Authorised shares (number)	**282 370 652**	282 370 652	**282 370 652**	282 370 652
Ordinary shares issued and fully paid				
282 370 652 (2020: 282 370 652) ordinary shares at no par value				
As at 31 December	**154 936**	154 936	**154 936**	154 936

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7. NON-DISTRIBUTABLE RESERVES

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Foreign currency translation reserve				
Opening balance	(206 940)	(167 328)	–	–
Transfer to retained earnings	–	30 600	–	–
Movement for the year	125 130	(70 212)	–	–
Balance at the end of the year	(81 810)	(206 940)	–	–
Consolidation reserve				
Opening balance	(40 155)	(40 696)	–	–
Transfer to retained earnings	–	–	–	–
Cost of shares disposed/(purchased)	3 090	541	–	–
Balance at the end of the year	(37 065)	(40 155)	–	–

A consolidation reserve is created for the effect of treasury shares, which represents BIHL shares purchased and held within the group, supporting policyholder liabilities which are measured at fair value. The cost of treasury shares is deducted from equity through a separate reserve account called a treasury share reserve. The excess of the fair value of shares over the cost is accounted for through the consolidation reserve, which is a capital reserve.

The reserve represents a temporary mismatch in that the reserve will reverse when the affected investments are realised through sale to parties external to the group.

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
BIHL shares held by policyholders				
Number of shares held as at 31 December	2 273	2 448	–	–
	2 273	2 448	–	–
Market price per share (Pula)	17,50	17,50	–	–
Non-distributable reserves				
Treasury shares				
Opening balance	(71 660)	(66 419)	–	–
Cost of treasury shares (purchased)/disposed	2	(5 241)	–	–
Balance at the end of the year	(71 658)	(71 660)	–	–
Share-based payment reserve				
Opening balance	100 365	96 471	31 449	26 630
Expense arising from equity-settled share-based payment transactions	3 985	3 894	3 985	4 819
Balance at the end of the year	104 350	100 365	35 434	31 449
Capital reserve account				
Opening balance	462 357	401 158	–	9 762
Transfer to retained earnings	19 542	61 199	–	(9 762)
Balance at the end of the year	481 899	462 357	–	–

7. NON-DISTRIBUTABLE RESERVES continued

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Total non-distributable reserves	395 716	243 967	35 434	31 449

The Insurance Industry Regulation of 2020 states that a long-term insurer and reinsurer shall maintain minimum capital which shall be the higher of P10 million or an amount representing 25% of operating expenses as defined and reported in the annual return, estimated for the following year. This reserve can be utilised a minimum of once every five years to increase the paid-up stated capital of the company. For the year ended 31 December 2021, 25% of the operating expenses of Botswana Life amounts to P195 million (2020: P182 million). At year-end, the group therefore held statutory capital reserves of at least 2,9 times the required capital levels based on IPR3L PCT.

8. LONG-TERM POLICYHOLDER LIABILITIES

8.1 Analysis of movement in long-term policyholder liabilities

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Income	2 834 024	3 120 578	–	–
Premium income	3 084 928	2 878 189	–	–
Investment return	(250 904)	242 389	–	–
Outflow	(3 237 354)	(2 717 044)	–	–
Policy benefits	(2 462 420)	(1 689 071)	–	–
Fees, risk premiums and other payments to shareholders' fund	(774 934)	(1 027 973)	–	–
Net movement for the year	(403 330)	403 534	–	–
Balance at the beginning of the year	10 847 636	10 444 102	–	–
Balance at the end of the year	10 444 306	10 847 636	–	–
Total policyholder liabilities	10 444 306	10 847 636	–	–

8.2 Composition of long-term policyholder liabilities

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Individual business	9 843 807	10 360 169	–	–
Linked and market-linked liabilities	2 984 460	2 466 533	–	–
Bonus stabilisation reserve	14 314	18 600	–	–
Individual stable bonus and market-related business	25 702	25 684	–	–
Non-participating annuities	6 580 825	7 671 154	–	–
Annuities – participating	238 506	178 198	–	–
Employee benefits business	(7 553)	38 798	–	–
Non-participating risk business	(7 553)	38 798	–	–
Unearned premium reserve	608 052	448 669	–	–
Total policyholder liabilities	10 444 306	10 847 636	–	–

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8. LONG-TERM POLICYHOLDER LIABILITIES continued
8.3 Maturity analysis of long-term policyholder liabilities

	<1 year P'000	1 – 5 years P'000	>5 years P'000	Open ended P'000	Total P'000
2021					
Maturity analysis of long-term policyholder liabilities					
Linked and market-related liabilities	148 134	627 763	2 208 563	–	2 984 460
Stable bonus fund	2 563	5 845	5 906	–	14 314
Guaranteed business	17 265	2 355	6 082	–	25 702
Non-participating annuities	1 346	18 821	6 560 658	–	6 580 825
Annuities – participating	–	–	–	238 506	238 506
Non-participating risk business	70 479	196 025	333 995	–	600 499
Total	239 787	850 809	9 115 204	238 506	10 444 306
2020					
Maturity analysis of long-term policyholder liabilities					
Linked and market-related liabilities	120 051	545 962	1 800 520	–	2 466 533
Stable bonus fund	2 737	9 825	6 038	–	18 600
Guaranteed business	8 746	11 012	5 926	–	25 684
Non-participating annuities	1 562	18 117	7 651 475	–	7 671 154
Annuities – participating	–	–	–	178 198	178 198
Non-participating risk business	29 413	162 863	295 191	–	487 467
Total	162 509	747 779	9 759 150	178 198	10 847 636

The above table shows the maturity of our policyholder liabilities by remaining duration. For insurance business, the liability is split by remaining duration in proportion to the cash flows expected to arise during that period, as permitted under IFRS 4 *Insurance Contracts*. The majority of linked business may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. However, we expect surrenders, transfers and maturities to occur over many years, and therefore the tables above reflect the expected cash flows for these contracts, rather than their contractual maturity date.

8.4 Policy liabilities include the following:

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
HIV/AIDS reserve	–	12 176	–	–
Asset mismatch reserve	238 506	179 757	–	–

Asset mismatch reserve refers to the reserve held to cushion against losses that may occur due to movement in interest rates as the value of liabilities does not move in line with the value of assets backing those liabilities.

8. LONG-TERM POLICYHOLDER LIABILITIES continued
8.5 Reinsurance assets

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Balance at the beginning of the year	9 259	7 718	–	–
New business IBNR and unearned premium reserve raised	480	516	–	–
In-force unearned premium reserve and IBNR release	(6 578)	(4 316)	–	–
In-force unearned premium reserve and IBNR raised	7 694	5 341	–	–
Balance at the end of the year	10 855	9 259	–	–

8.6 Movement in life insurance contract liability

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Change in policyholder liabilities under insurance contracts	(403 330)	403 534	–	–
Change in contract liabilities ceded to reinsurers	1 596	1 541	–	–
Movement in the income statement	(401 734)	405 075	–	–

8.7 Derivatives instrument

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Foreign exchange swap transaction	42 366	2 400	–	–
Reconciliation of movement during the year				
Balance as at 1 January	2 400	5 810	–	–
Fair value adjustment	39 966	(3 410)	–	–
Closing balance as at 31 December	42 366	2 400	–	–

This transaction was entered into between BIHL Group and African Life Assurance Company Botswana Proprietary Limited (ALBOTS) – a wholly-owned subsidiary of Sanlam, whose sole asset and source of revenue is a 17% shareholding in BIHL. ALBOTS which receives periodic dividends and converts the same to South African Rand, wished to swap these cash flows to mitigate against currency movements. The group (through the Botswana Life annuity portfolio), wished to gain exposure to long-dated bonds, however, given the shortage of such in Botswana, resolved to gain similar exposure synthetically. The parties then entered into a swap which saw BIHL Group, through Botswana Life, purchasing a long-dated South African Government bond and swapping the South African Rand coupons received from the note for Pula. ALBOTS swapped its Pula dividends for South African Rand and thus each party obtained exposure to their desired currency. This resulted in a synthetic Pula bond exposure for BIHL Group, which is valued in the same way all the other bonds in the annuity book are valued – via the Botswana zero curve. The South African Rand bond's value is taken to be the bond's market value at every valuation date.

The positions are valued monthly and the difference between the two is the swap contract's value at valuation date. No cash flow exchanged hands during the life of the contract (i.e. the swap value becomes unrealised gains or losses in the book). In 2021, the Government of Botswana increased the frequency and quantum of Government bond auctions. This saw a sustained increase in the local yield curve – and with that, bond valuations dropped significantly including the valuation of the Pula leg of the swap. On the other hand, in South Africa, the yield curve rose but not as significantly as the local one, hence the bond valuations did not significantly drop, thus the South African Government Bond – R214 retained much value compared to the Pula synthetic bond.

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9. EXTERNAL INVESTORS IN CONSOLIDATED FUNDS

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Balance at the beginning of the year	2 519 241	2 667 763	–	–
Fair value losses	(23 007)	(31 878)	–	–
Net investment return	372 202	35 790	–	–
Net funds inflow/(outflow)	766 747	(152 434)	–	–
Balance at the end of the year	3 635 183	2 519 241	–	–
Segregated funds accounted for off the statement of financial position	26 940 905	22 641 781	–	–

Net investment return comprises interest income on financial assets at fair value through profit or loss, rental income, dividend income and fair value adjustments on investments disclosed in note 13.

Segregated funds are excluded from investments and liabilities under investment management contracts on the statement of financial position. The assets are kept on behalf of the investors and are not assets of the group. The assets are managed by the asset management company (Bifm). On 11 October 2019, Bifm transferred the pooled funds to newly formed and registered CIU trusts, effectively moving all third-party investments off the Bifm balance sheet and retaining the investments and units directly owned by Bifm. The CIU funds are now consolidated in the group's financials where the group has invested more than 20%.

10. NON-CONTROLLING INTERESTS

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Balance at the beginning of the year	25 228	23 597	–	–
Share of profit	4 715	5 510	–	–
Dividend payment	(11 215)	(3 879)	–	–
Balance at the end of the year	18 728	25 228	–	–

10.1 Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operations	2021 %	2020 %
KYS Investments Limited	Botswana	37	37
Bifm CEE	Botswana	11	11
PPB	Botswana	26	26

In 2018, Bifm disposed of 11% of its shares to the CEE. This resulted in non-controlling interest of 11%. Refer to note 21.

10. NON-CONTROLLING INTERESTS continued

10.1 Proportion of equity interest held by non-controlling interests continued

	2021 P'000	2020 P'000
Accumulated balances of material non-controlling interest		
KYS Investments Limited	15 733	16 184
Bifm CEE	2 995	9 044
	18 728	25 228
Profit/(loss) allocated to material non-controlling interest		
KYS	(294)	358
Bifm	5 009	5 152
	4 715	5 510

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	Bifm P'000	KYS P'000	PPB P'000
Summarised profit or loss for 2021			
Revenue	141 620	(652)	–
Administrative expenses	(67 093)	(141)	–
Profit before tax	74 527	(793)	–
Income tax	(18 885)	–	–
Profit for the year from continuing operations	55 642	(793)	–
Total comprehensive income	55 642	(793)	–
Attributable to non-controlling interests	5 009	(294)	–
Dividends paid to non-controlling interests	(11 058)	–	–
Summarised profit or loss for 2020			
Revenue	130 936	974	–
Administrative expenses	(60 611)	(8)	–
Profit before tax	70 325	966	–
Income tax	(23 184)	–	–
Profit for the year from continuing operations	47 141	966	–
Total comprehensive income	47 141	966	–
Attributable to non-controlling interests	5 152	358	–
Dividends paid to non-controlling interests	(3 448)	–	–

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10. NON-CONTROLLING INTERESTS continued

10.1 Proportion of equity interest held by non-controlling interests continued

	Bifm P'000	KYS P'000	PPB P'000
Summarised statement of financial position as at 31 December 2021			
Trade receivables and cash and bank balances (current)	129 965	2 569	–
Property and equipment and other non-current financial assets (non-current)	6 498 152	31 922	–
Trade and other payables (current)	(31 636)	918	(2 975)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(15 344)	–	–
Total equity	6 581 137	35 409	(2 975)
Attributable to:			
Equity holders of the parent	6 578 142	19 676	(2 975)
Non-controlling interests	2 995	15 733	–
Summarised statement of financial position as at 31 December 2020			
Trade receivables and cash and bank balances (current)	111 196	2 485	–
Property, plant and equipment and other non-current financial assets (non-current)	4 900 077	38 034	–
Trade and other payables (current)	(26 520)	165	(2 975)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(15 195)	–	–
Total equity	4 969 558	40 684	(2 975)
Attributable to:			
Equity holders of the parent	4 960 514	24 500	(2 975)
Non-controlling interests	9 044	16 184	–

	Bifm P'000	KYS P'000	PPB P'000
Summarised cash flow information for the year ended 31 December 2021			
Operating	1 054 930	(1 115)	–
Financing	3	–	–
Net increase/(decrease) in cash and cash equivalents	1 054 934	(1 115)	–
Summarised cash flow information for the year ended 31 December 2020			
Operating	(98 304)	(6 434)	–
Investing	1 620 178	7 490	–
Net increase/(decrease) in cash and cash equivalents	1 521 874	1 056	–

11. DEFERRED TAX

Deferred tax included in the statement of financial position and changes recorded in the income tax expense are as follows:

	GROUP					
	Deferred tax asset 2021 P'000	Deferred tax liability 2021 P'000	Profit or loss 2021 P'000	Deferred tax asset 2020 P'000	Deferred tax liability 2020 P'000	Profit or loss 2020 P'000
Balance at the beginning of the year	–	(19 521)	–	–	(22 161)	–
Charge to the income statement	–	(4 259)	(4 259)	–	2 640	2 640
Balance at the end of the year	–	(23 780)	(4 259)	–	(19 521)	2 640
Representing:						
Accelerated depreciation for tax purposes	–	1 187	(3 017)	–	4 204	(5 282)
Unrealised gains on shareholders' investments	–	23 286	4 540	–	18 746	4 166
Sanlam Pan Africa recharges deferred tax	–	(321)	–	–	(321)	–
Right-of-use assets IFRS 16	–	(4 631)	(1 524)	–	(3 107)	(1 524)

No deferred tax asset was recognised in the holding company due to the assessable tax losses amounting to P8 million (2020: P1,6 million). There is uncertainty when taxable profits will be available against which the deferred tax asset can be utilised.

Withholding taxes are paid to the Government and they are a portion of the total dividend that is declared. Where the company receives a dividend on which withholding tax is levied, that withholding tax is recognised as a current tax expense.

12. INSURANCE AND OTHER PAYABLES

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Insurance payables				
Due to agents and brokers	57 631	44 149	–	–
Due to reinsurers	16 940	24 872	–	–
Life Insurance claims payable	264 053	226 438	–	–
Premiums received in advance	91 206	83 629	–	–
Other payables				
Other accounts payable	186 757	246 819	23 534	27 081
	616 587	625 907	23 534	27 081

Terms and conditions of the above financial liabilities are:

Trade payables are non-interest-bearing insurance-related liabilities and their terms and conditions are as follows:

- Insurance claims are settled within 30 days
- Reassurance payable is settled within 90 days
- Due to agents and brokers – these are intermediary retention balances held on behalf of brokers and agents and are released on the anniversary of the policy
- Short-term insurance payables are settled within 30 days.

Other payables relates to payroll accruals – leave pay, bonuses and gratuities.

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13. PREMIUM REVENUE

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Life insurance				
Individual life	2 139 293	2 048 089	–	–
Gross premium	2 175 031	2 086 420	–	–
– Recurring premium	1 563 460	1 382 629	–	–
– Single	611 571	703 791	–	–
Premium ceded to reinsurers	(35 738)	(38 331)	–	–
Group and employee benefits	945 635	831 536	–	–
Gross premium	964 192	850 235	–	–
– Recurring premium	317 443	252 759	–	–
– Single	646 749	597 476	–	–
Premium ceded to reinsurers	(18 557)	(18 699)	–	–
Total	3 084 928	2 879 625	–	–

13.1 Revenue from contracts with customers

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Contract revenue earned over time				
Fee income	127 760	108 254	–	–
Contract revenue earned at a point in time				
Performance fees	–	681	–	–
	127 760	108 935	–	–

14. INVESTMENT RETURNS

14.1 Shareholders' interest income

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Interest income using EIR	4 467	6 838	1 568	2 397
	4 467	6 838	1 568	2 397

14.2 Interest income on financial assets at fair value through profit or loss

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Shareholders' interest income	19 342	10 302	–	–
	19 342	10 302	–	–
Policyholders' interest income				
Policyholder insurance contracts	659 074	625 488	–	–
Policyholder investment contracts	372 199	23 201	–	–
	1 031 273	648 689	–	–
Total interest income	1 050 615	658 991	–	–

14. INVESTMENT RETURNS continued

14.3 Investment income

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Shareholders' investment income				
Rental income on investment properties	20 708	17 814	–	–
Other income	–	–	1 682	583
Dividends	1 153	2 358	205 773	412 813
	21 861	20 172	207 455	413 396
Policyholders' investment income				
Policyholder insurance contracts				
Rental income on investment properties	25 269	16 447	–	–
Dividends	27 019	18 553	–	–
	52 288	35 000	–	–
Policyholder investment contracts				
Dividends	–	12 589	–	–
	–	12 589	–	–
Total policyholders' investment income	52 288	47 589	–	–
Total investment income	74 149	67 761	207 455	413 396

14.4 Net losses from financial assets held at fair value through profit or loss

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Shareholders' net losses from financial assets held at fair value through profit or loss				
Fair value losses on investments	(8 452)	(26 769)	–	–
Foreign exchange gains	513	2 461	–	–
	(7 939)	(24 308)	–	–
Policyholders' net gains from financial assets held at fair value through profit or loss				
Insurance contracts				
Fair value (losses)/gains on investments	(936 641)	384 940	–	–
Foreign exchange gains/(losses)	11 888	4 323	–	–
	(924 753)	(380 617)	–	–
Investment contracts				
Fair value (losses)/gains on investments	(23 007)	(31 878)	–	–
	(23 007)	(31 878)	–	–
Total policyholder net (losses)/gains from financial assets held at fair value through profit or loss	(947 760)	(412 495)	–	–
Total net losses from financial assets held at fair value through profit or loss	(955 699)	(436 803)	–	–

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15. NET INSURANCE BENEFITS AND CLAIMS

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Individual life				
Death and disability claims	374 989	140 657	–	–
Maturity claims	285 680	245 118	–	–
Policy surrenders	226 697	142 073	–	–
Annuities	655 389	622 419	–	–
Reinsurance share on death and disability claims	(94 984)	(16 110)	–	–
Total individual life	1 447 771	1 134 157	–	–
Group and employee benefits				
Death and disability claims	693 371	304 606	–	–
Policy surrenders	226 294	234 198	–	–
Reinsurance share on death and disability claims	(37 010)	(23 130)	–	–
Total group and employee benefits	882 655	515 674	–	–
Total net insurance benefits and claims	2 330 426	1 649 831	–	–

16. ADMINISTRATION EXPENSES AND IMPAIRMENTS

16.1 Administration expenses included

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Auditor's remuneration				
– Audit fee current period	4 461	4 386	535	655
Depreciation of property and equipment	12 453	7 581	779	730
Amortisation of intangible assets	10 509	7 071	247	246
Directors' fees				
– For services as directors	4 643	3 943	3 033	2 429
– For managerial services	23 291	21 302	10 313	10 555
– Pension contribution	1 956	1 734	808	808
Depreciation of right-of-use assets	5 216	5 253	1 582	2 209
Staff costs	168 985	175 996	28 581	27 559
Salaries and wages for administration staff	139 566	148 998	22 974	21 312
Pension costs	18 321	15 296	1 622	1 428
Share-based payment	11 098	11 702	3 985	4 819
Investment management fees	(37 513)	(37 482)	–	–
Average number of employees	382	363	25	21

16.2 Impairments

	Note	GROUP		COMPANY	
		2021 P'000	2020 P'000	2021 P'000	2020 P'000
Impairment expense of investment in subsidiaries and associates	4.5	–	–	(22 443)	–
Impairment of loan at amortised cost	4.3	(779)	3 170	–	–
Impairment of premiums receivable		–	8 178	–	–
ECLs on brokers' and agents' loans		2 810	7 708	–	–
		2 031	19 056	(22 443)	–

17. TAXATION

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Taxation				
Current tax	(55 153)	(105 782)	–	–
Deferred tax	(4 259)	2 640	–	–
Withholding tax on dividends	(24 089)	(25 116)	(13 223)	(9 597)
Capital gains tax	(385)	(406)	–	–
Tax charge	(83 886)	(128 664)	(13 223)	(9 597)
Tax reconciliation				
Reconciliation between tax expense and accounting profit at the standard tax rate				
Profit before tax	476 623	666 173	129 019	385 630
Tax calculated at a tax rate of 22%	104 857	146 558	28 384	84 839
Expenses not deductible for tax	8 811	16 313	17 601	6 943
Income not subject to income tax	(54 256)	(59 729)	(45 985)	(91 782)
Withholding tax on dividends	24 089	25 116	13 223	9 597
Capital gains tax	385	406	–	–
Tax charge	83 886	128 664	13 223	9 597
Effective tax rate (%)	18	19	10	2

Income not subject to income tax includes dividends from subsidiaries and associates. Expenses not deductible relate to head office expenses incurred in the generation of non-taxable income. The holding company had assessable losses amounting to P8 million (2020: P1,6 million). In terms of Botswana tax laws, the amounts can be carried for a period not exceeding five years.

17.1 Tax paid

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Opening balance	31 736	(5 258)	(382)	(216)
Tax charge	79 627	131 304	13 223	9 597
Withholding tax paid at source	(24 089)	(23 644)	(12 933)	(8 291)
Closing balance	(3 441)	(31 736)	116	382
Tax paid	83 833	70 666	24	1 472

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For the year ended 31 December 2021

18. EARNINGS PER SHARE (GROUP ONLY)

Earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	GROUP	
	2021 P'000	2020 P'000
Net profit attributable to ordinary equity holders of the parent for basic earnings and diluted earnings	388 022	531 999
Number of shares in issue	282 371	282 371
Staff share scheme and treasury shares	(4 705)	(6 347)
Weighted average number of shares used for calculating basic earnings per share	277 665	276 023
Weighted number of dilutive options	(4 705)	(6 347)
Weighted average number of shares used for calculating diluted earnings per share	272 960	269 676
Earnings per share (thebe) attributable to ordinary equity holders of the parent		
– Basic	140	193
– Diluted	140	192

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these annual financial statements.

19. DIVIDENDS PER SHARE PAID AND PROPOSED (NET OF WITHHOLDING TAX)

	2021 P'000
Declared and paid during the year	
Final dividend for the year to 31 December 2020: 65 thebe (2019: 59 thebe)	183 541
Interim dividend for the six months to 30 June 2021: nil thebe (2020: 76 thebe)	–
	183 541
Dividend proposed after year-end not recognised in the annual financial statements	
Final dividend for the year to 31 December 2021: 71 thebe (2020: 65 thebe)	200 483
Special dividend for the year to 31 December 2021: nil thebe (2020: nil thebe)	–
Dividend proposed for approval at the annual general meeting (not recognised as a liability as at 31 December)	200 483

20. RELATED PARTY DISCLOSURES

The consolidated annual financial statements include the financial statements of BIHL, subsidiaries, associates and joint ventures as listed in the following table:

	Country of incorporation	% of interest held 2021	2020	Nature of business
Principal subsidiaries				
Directly held				
Botswana Life Insurance Limited	Botswana	100	100	Life insurance
Bifm Holdings Limited	Botswana	100	100	Holding company
IGI Insurance Holdings Limited	Botswana	100	100	Dormant
BIHL Legal Guard Proprietary Limited	Botswana	100	100	Dormant
BIHL Trust	Botswana	100	100	Corporate social responsibility
BIHL Employee Share Scheme Trust	Botswana	n/a	n/a	Employee share trust
KYS Investments Proprietary Limited	Botswana	63	63	Hospitality industry
Private Property (Botswana) Proprietary Limited	Botswana	74	74	Real estate
Indirectly held				
Botswana Insurance Fund Management Limited	Botswana	89	89	Asset management
Botswana Life Properties Proprietary Limited	Botswana	100	100	Dormant
Bifm Holdings and Financial Services Limited	Isle of Man	100	100	Holding company
Bifm Capital Investment Fund 1	Botswana	100	100	Corporate finance
Bifm Projects Proprietary Limited	Botswana	100	100	Deregistered
Bifm Unit Trusts Proprietary Limited	Botswana	100	100	Unit trusts
Collective investment undertaking				
Balanced Prudential Fund	Botswana	20	21	Collective investment undertaking
Pula Money Market	Botswana	36	35	Collective investment undertaking
Local Equity Funds	Botswana	75	–	Collective investment undertaking
Letlotlo	Botswana	88	94	Collective investment undertaking
Yamasa	Botswana	93	82	Collective investment undertaking
Bifm Global Sustainable Growth Fund	Botswana	93	–	Collective investment undertaking
Bifm Global Balanced Conservative Fund B1	Botswana	99	98	Collective investment undertaking
Bifm Local Balanced Conservative Fund Class B	Botswana	99	98	Collective investment undertaking
Bifm Offshore Bond Fund B1	Botswana	56	56	Collective investment undertaking
Bifm Off Money Market Fund B1	Botswana	20	17	Collective investment undertaking
Bifm Off Private Equity B1	Botswana	35	35	Collective investment undertaking
Bifm Local Bond Fund B1	Botswana	57	54	Collective investment undertaking
Bifm Local Equity Fund B1	Botswana	60	69	Collective investment undertaking
Bifm Local Property B1	Botswana	37	39	Collective investment undertaking
Bifm Local Money Market B1	Botswana	25	9	Collective investment undertaking

Holding company

The ultimate holding company of the group is Sanlam Limited which is based and listed in South Africa.

Associates and joint ventures

The group's interest in associates and joint ventures is disclosed in note 4.5 to the annual financial statements.

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20. RELATED PARTY DISCLOSURES continued

20.1 Related party transactions

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Transactions on insurance contracts (expense)/income				
Sanlam Limited (59% shareholder of BIHL)				
– Recoveries, travel claims and other meeting expenses	1 598	3 536	–	–
LHL (associate)				
– Credit life income	198 582	198 582	–	–
– Claims paid	(164 371)	(164 371)	–	–
FSG (associate)				
– Share of net insurance income	(28 880)	8 025	–	–
Summary of transactions with related parties				
Shared expenses				
Botswana Life (100% owned by BIHL)	–	–	5 945	5 308
Bifm (74,9% owned by BIHL)	–	–	1 365	1 219
BIHL Unit Trusts (100% owned by BIHL)	–	–	74	70
Dividends received				
Botswana Life (100% owned by BIHL)	–	–	143 025	321 967
Bifm (74,9% owned by BIHL)	–	–	37 370	70 115
KYS Investments Proprietary Limited (63% owned by BIHL)	–	–	–	2 534
Investment returns				
Balanced Prudential Fund	2 847	1 805	–	–
Pula Money Market	24 775	(2 604)	–	–
Local Equity Funds	1 196	–	–	–
Letlotlo	2 092	333	–	–
Yamasa	862	800	–	–
Bifm Global Sustainable Growth Fund	879	–	–	–
Global Balanced Conservative Fund B1	24	43	–	–
Local Balanced Conservative Fund Class B	55 926	22	–	–
Offshore Bond Fund B1	5 265	25 664	–	–
Off Private Equity B1	1 020	(11 728)	–	–
Local Bond Fund B1	193 749	(2 633)	–	–
Local Equity Fund B1	(6 977)	(182)	–	–
Local Property B1	17 579	13 676	–	–
Local Money Market B1	30 111	3 750	–	–

20. RELATED PARTY DISCLOSURES continued

20.1 Related party transactions continued

Year-end balances arising from transactions on other services other than insurance contracts

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Amount receivable				
Botswana Life (100% owned by BIHL)	–	–	1 540	–
Bifm (100% owned by BIHL)	–	–	432	30
BIHL Trust	–	–	21	–
	–	–	1 993	30
Amount payable				
Botswana Life (100% owned by BIHL)	–	–	–	562
BIHL Trust	–	–	–	383
Sanlam Limited (59% shareholder of BIHL)	1 589	3 536	–	–
	1 589	3 536	–	945

Year-end balances arising from transactions on insurance contracts

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Net due from:				
Balanced Prudential Fund	4	4	–	–
Pula Money Market	211 390	226 682	–	–
Global Balanced Conservative Fund B1	–	1 409	–	–
Local Balanced Conservative Fund Class B	1 501	1 287	–	–
Offshore Bond Fund B1	1 321	52	–	–
Off Money Market Fund B1	–	2 031	–	–
Off Private Equity B1	–	31 470	–	–
Local Bond Fund B1	37 294	19 300	–	–
Local Equity Fund B1	–	60 017	–	–
Local Money Market B1	–	11 578	–	–
	251 510	353 830	–	–

The above transactions were carried out on commercial terms and conditions and at market prices.

Loans to directors (group)

There were no loans to directors.

Terms and conditions of transactions with related parties

The transactions between related parties are made at terms equivalent to those that prevail in arm's-length transactions. Outstanding balances at year-end are unsecured and interest free and are generally settled in 90 days. There have been no guarantees provided or received for any related party receivables or payables.

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20. RELATED PARTY DISCLOSURES continued

20.1 Related party transactions continued

Transactions with key management

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Compensation of key management personnel of the group				
Short-term employee benefits	**19 230**	17 925	**12 046**	10 366
Pension costs – defined contribution plans	**1 956**	1 734	**1 187**	1 033
Share-based payments	**4 061**	3 378	**3 645**	2 752
	25 247	23 037	**16 878**	14 151

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

	Number of shares 2021	Number of shares 2020
Directors' shareholding in the group		
B Dambe-Groth	**23 923**	23 923
M Mpugwa	**5 569**	5 569
C Chauhan	**75 020**	75 020
T Masire	**591**	591
C Lesetedi	**225 370**	148 550
K Mukushi	**136 993**	85 780
	467 466	339 433

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Non-executive directors' remuneration				
For services as directors	**4 643**	3 943	**3 033**	2 429
	4 643	3 943	**3 033**	2 429

Executive directors' emoluments (group and company)

The remuneration of executive directors comprises salaries and other short-term incentives as well as participation in long-term incentive plans.

Short-term emoluments

Name	Months of service P'000	Salary P'000	Bonus P'000	Other benefits P'000	Total P'000
2021					
C Lesetedi	**12**	**3 480**	**1 350**	**1 929**	**6 759**
K Mukushi	**12**	**2 385**	**961**	**1 021**	**4 363**
Total executive directors		**5 865**	**2 311**	**2 950**	**11 122**
2020					
C Lesetedi	12	3 480	1 500	1 471	6 451
K Mukushi	12	2 385	911	1 616	4 912
Total executive directors		5 865	2 411	3 087	11 363

20. RELATED PARTY DISCLOSURES continued

20.1 Related party transactions continued

Long-term emoluments

Share purchase plans	Number of options	Number of grants – CSP	Strike price (Pula)	Exercised	Forfeited	Outstanding	Expiry date
2021							
C Lesetedi							
Granted 2010	**231 413**	**–**	**17,13**	**(231 413)**	**–**	**–**	**–**
Granted 2013	**–**	**89 489**	**15,20**	**(89 489)**	**–**	**–**	**–**
Granted 2013	**–**	**66 158**	**16,30**	**(66 158)**	**–**	**–**	**–**
Granted 2014	**–**	**65 270**	**18,55**	**(65 270)**	**–**	**–**	**–**
Granted 2015	**–**	**105 846**	**17,50**	**(105 846)**	**–**	**–**	**–**
Granted 2016	**–**	**80 402**	**17,50**	**(80 402)**	**–**	**–**	**–**
Granted 2017	**–**	**71 423**	**17,50**	**(71 423)**	**–**	**–**	**–**
Granted 2018	**–**	**102 426**	**17,50**	**(102 426)**	**–**	**–**	**–**
Granted 2019	**–**	**43 468**	**–**	**–**	**–**	**43 468**	**2029**
Granted 2020	**–**	**121 238**	**–**	**–**	**–**	**121 238**	**2030**
Granted 2021	**–**	**93 485**	**–**	**–**	**–**	**93 485**	**2031**
Total	**231 413**	**839 205**		**(812 427)**	**–**	**258 191**	
2020							
C Lesetedi							
Granted 2010	231 413	–	17,13	(231 413)	–	–	–
Granted 2013	–	89 489	15,20	(89 489)	–	–	–
Granted 2013	–	66 158	16,30	(66 158)	–	–	–
Granted 2014	–	65 270	18,55	(65 270)	–	–	–
Granted 2015	–	105 846	17,50	(105 846)	–	–	–
Granted 2016	–	80 402	17,50	(80 402)	–	–	–
Granted 2017	–	71 423	17,50	(71 423)	–	–	–
Granted 2018	–	102 426	–	–	–	102 426	2028
Granted 2019	–	43 468	–	–	–	43 468	2029
Granted 2020		121 238	–	–	–	121 238	2030
Total	231 413	745 720		(710 001)	–	267 132	

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For the year ended 31 December 2021

20. RELATED PARTY DISCLOSURES continued

20.1 Related party transactions continued

Long-term emoluments continued

Share purchase plans	Number of options	Number of grants – CSP	Strike price (Pula)	Exercised	Forfeited	Outstanding	Expiry date
2021							
K Mukushi							
Granted 2016	–	173 227	17,50	(173 227)	–	–	–
Granted 2017	–	85 780	17,50	(85 780)	–	–	–
Granted 2018	–	51 213	17,50	(51 213)	–	–	–
Granted 2020	–	86 086	–	–	–	86 086	2030
Granted 2021	–	53 934	–	–	–	53 934	2031
Total	–	450 240		(310 220)	–	140 020	
2020							
K Mukushi							
Granted 2016	–	173 227	17,50	(173 227)	–	–	–
Granted 2017	–	85 780	17,50	(85 780)	–	–	–
Granted 2018	–	51 213	–	–	–	51 213	2028
Granted 2020	–	86 086	–	–	–	86 086	2030
Total	–	396 306		(259 007)	–	137 299	

All shares as disclosed above are granted and are exercisable until the expiry date as disclosed. Refer to note 21(b) for additional information on the scheme.

21. EMPLOYEE BENEFITS

Retirement benefit plan

Defined contribution plan

A defined contribution plan is a pension plan under which the group pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the group in a fund under the control of trustees. The total expense charged to income of P18,3 million (2020: P15,3 million) represents contributions payable to these plans by the group at rates specified in the rules of the plan.

Share-based payment

The group has a share-based payment scheme. The group introduced two additional new schemes in 2010. These are the

- SOS, and
- CSP.

Share option scheme

All employees are eligible to participate in the scheme based on superior performance.

BIHL grants the employees the option to obtain shares in BIHL. The share options vest after a period of three years of continuous service from the grant date. The shares are issued at the ruling market price on the date of the grant. The company and group accounts for the awards as equity-settled.

After the share options have vested, employees are given a period of 10 years from the offer date to exercise their option. The amount carried in the share-based reserve as at 31 December 2021 is Pnil (2020: P0,581 million). The expense recognised in the income statement is Pnil (2020: Pnil).

21. EMPLOYEE BENEFITS continued

Share-based payment continued

Share option scheme continued

Movement during the year	2021 Number of share options '000	2021 Weighted average exercise price P	2020 Number of share options '000	2020 Weighted average exercise price P
Outstanding at the beginning of the year	50	11,75	63	11,48
Exercised	(50)	11,75	(13)	11,00
Outstanding at the end of the year	–	–	50	11,75
Exercisable as at 31 December	–	–	50	11,75

The were no options granted during the year (2020: Pnil). The weighted average value of options granted during the year was Pnil (2020: Pnil).

The weighted average remaining contractual life for the shares outstanding as at 31 December 2021 is nil year (2020: one year).

The range of exercise prices for options outstanding at the end of the year was Pnil (2020: P11,00 – P11,75).

Conditional share plan

The purpose of the plan is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the group. The awards are given as grants. The awards are aligned to strategic periods and targets. Employees must remain in service for a period of three consecutive years from the date of grant. Vesting is based on satisfactory performance of individuals as per their scorecards over the stated three years. BIHL grants employees the option to obtain shares in BIHL. The employer companies will, however, remain responsible to fund the procurement and settlement of shares issued to its employees in terms of the scheme at the time the shares are so procured.

The amount carried in the share-based reserve as at 31 December 2021 is P104 million (2020: P100 million). The expense recognised in the income statement is P11,1 million (2020: P11,7 million).

Movement during the year	2021 Number of grants '000	2021 Weighted average fair value price at grant/exercise date	2020 Number of grants '000	2020 Weighted average fair value price at grant/exercise date
Outstanding at the beginning of the year	1 697	17,50	1 368	10,29
Granted	824	17,50	1 054	17,50
Exercised	(643)	17,50	(725)	18,54
Outstanding at the end of the year	1 878	17,50	1 697	17,50

The weighted average remaining contractual life for the grants outstanding as at 31 December 2021 is three years (2020: three years).

The number of conditional shares granted during the year was 824 301 (2020: 1 054 108 100).

The weighted average fair value exercise price for grants outstanding at the end of the year was P17,50 (2020: P17,50).

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21. EMPLOYEE BENEFITS continued

Share-based payment continued

Conditional share plan continued

The following assumptions have been used in the valuation model of the SOS:

	2021 %	2020 %
Dividend yield	0 – 7,15	7,30
Risk-free interest rate	5,38	5,38
Spot price	17,50	17,50
% of remaining employees	100,00	100,00

The following assumptions have been used in the valuation model of the CSP:

	2021 %	2020 %
Dividend yield	n/a	7,30
Volatility	n/a	n/a
Risk-free interest rate	n/a	n/a
Spot price	n/a	17,50
% of remaining employees	n/a	100,00

Options pricing model

Since the BIHL employee share options are not tradable, IFRS 2 requires that the fair value of these options be calculated using a suitable option pricing model. In terms of best practice, management and the directors have adopted a modified binomial tree model for valuation purposes, which can be described, at a high level, as follows:

The life of the option is divided into a large number of small time periods.

A binomial tree is developed with time-dependent nodes corresponding to projected upward and downward movements of the BIHL share. This projection is calculated as a function of the volatility of the underlying share, and by assuming that the share price follows a stochastic process.

Starting from the maturity date of the option, the model works backward through the tree, and at each node determines two possible values for the option: (a) the value of the option if one were to continue to hold it at that point in time, and (b) the value of the option if one were to exercise it at that node. Value (a) above is calculated using arbitrage-free principles and a risk-neutral valuation theory, while value (b) is calculated simply as the difference between the projected spot price of the underlying share at that node and the strike price of the option.

For time periods subsequent to the vesting date of each option, the model uses the greater of the two values referred to above to estimate the option's value at that node. For time periods prior to the vesting date, only value is used to estimate the option's value, reflecting the fact that the option cannot be exercised prior to vesting date.

Once the value at a particular node has been determined, that value is discounted to the prior period using the risk-free yield curve, taking into account the probability of realising that value. Eventually, the value at the first node (i.e. corresponding with a valuation date) is calculated. This represents the fair value of the option.

Other inputs used

Generally, there are six variables that determine the price of an employee share option:

- The market price of the underlying share at the grant date
- The strike price of the option
- The time remaining until the option expires (i.e. the expiry date of the option)
- The time remaining until the option vests
- The expected dividend yield of the underlying share over the life of the option, and
- The expected volatility of the underlying share over the life of the option.

21. EMPLOYEE BENEFITS continued

Share-based payment continued

Volatility

The volatility input to the pricing model is a measure of the expected price fluctuations of the underlying security over a given period of time. Volatility is measured as the annualised standard deviation of the daily price changes in the underlying share under the assumption that the share price is log-normally distributed. This is in line with market practice. All else being equal, the more volatile the underlying share, the greater the price of the option.

There are two common approaches to calculating volatility. The first method uses historical price data of the underlying share, while the second technique employs data from the options market itself (provided that an active market exists for the options under consideration). Because there are no options trading in the market that are similar to the BIHL share options, historical data from a period prior to each grant date, which is commensurate with the options' contractual term to maturity, was used to calculate the expected volatility of the BIHL shares over the options' lifetimes.

Bifm CEE scheme

Participants to the Bifm CEE scheme are given participation rights in the form of units which, in turn, are linked to the performance of the Bifm Limited share price. The vesting of the conditional awards is subject to the participant being continuously employed for three years until the vesting date and fulfilling performance conditions.

After the grant options have vested, employees are given a period of 30 days from the date of vesting to exercise their option. The expense recognised in the income statement is P2,9 million (2020: P2,6 million).

	2021		2020	
Movement during the year	Number of share options '000	Weighted average exercise price P	Number of share options '000	Weighted average exercise price P
Outstanding at the beginning of the year	1 658	2,93	960	2,97
Granted	815	2,90	1 658	2,90
Exercised	(1 011)	2,93	(960)	2,97
Outstanding at the end of the year	1 462	2,91	1 658	2,93
Exercisable as at 31 December	1 462	2,91	2 618	2,93

The Bifm CEE scheme is cash-settled and is thus repriced at each reporting date. The fair value of shares granted under this scheme during the current financial year has been calculated using the closing price of P3,59 (2020: P2,90), adjusted for expected future dividends that will be declared by Bifm during the vesting period.

Included in the share-based payment liability is an amount of P5,5 million (2020: P5,40 million) arising from the Bifm CEE scheme.

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22. CASH GENERATED FROM OPERATIONS

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Profit before tax	**476 623**	666 173	**129 019**	385 630
Non-cash flow items	**291 625**	574 737	**29 635**	7 254
Depreciation	**12 453**	7 581	**779**	730
Amortisation	**10 509**	7 071	**247**	246
Depreciation of right-of-use asset	**5 216**	5 253	**1 582**	2 209
Impairment expense of subsidiary	**–**	–	**22 443**	–
Unrealised fair value losses on shareholder assets	**7 939**	24 308	**–**	–
Net unrealised losses from financial assets held at fair value through profit or loss	**964 719**	345 329	**–**	–
Unrealised fair value losses/(gains) on investment properties and property funds	**4 770**	(7 526)	**–**	–
Fair value adjustment in external investors in consolidated funds*	**23 007**	31 878	**–**	–
Fair value adjustment in derivative instrument*	**(39 966)**	3 410	**–**	–
Net movement in long-term policyholder liabilities**	**(403 330)**	403 534	**–**	–
Interest expense	**543**	861	**599**	646
Profit on disposal of subsidiary	**–**	(1 396)	**–**	(1 396)
Equity-accounted earnings	**(305 333)**	(257 268)	**–**	–
Share-based payments	**11 098**	11 702	**3 985**	4 819
Items disclosed separately	**(424 180)**	(55 288)	**(207 341)**	(415 210)
Interest income	**(396 008)**	(40 341)	**(1 568)**	(2 397)
Dividend income	**(28 172)**	(14 947)	**(205 773)**	(412 813)
Working capital changes:	**(5 130)**	224 763	**(6 555)**	(24 372)
Net decrease/(increase) in insurance and other receivables	**3 474**	(37 166)	**(2 063)**	(2 713)
Net increase in reinsurance assets	**(1 596)**	(1 541)	**–**	–
Net (decrease)/increase in insurance and other payables	**(7 008)**	263 470	**(4 492)**	(21 659)
Net change in external investors in consolidated funds***	**1 138 949**	(116 644)	**–**	–
Cash generated from operations	**1 477 887**	1 293 741	**(55 242)**	(46 698)

* *In 2021, the fair value movement from external investors in consolidated funds was separately disclosed to show separately the non-cash movements. The fair value movements from the derivative instrument were also shown under non-cash movements. To provide comparability, the prior year balances have been restated.*

** *In 2021, the net change in long-term policyholder liabilities is now disclosed under non-cash movements as it does not form part of working capital.*

*** *In 2021, management reviewed the presentation of net change in external investors in consolidated funds that was previously disclosed under working capital changes, now disclosed separately as it does not form part of working capital.*

23. CASH AND BANK

	GROUP		COMPANY	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Cash and bank	**112 650**	171 225	**24 768**	68 412
Funds on deposit	**24 768**	68 412	**–**	–
Cash and cash equivalents	**137 418**	239 637	**24 768**	68 412

The reclassification does not affect the economic decision-making of the users of the financial statements. The net change of the impact of the reclassification is nil.

Cash and cash equivalents are held for varying periods of between one day and three months depending on the immediate cash requirements of the group. All deposits are subject to an average variable interest rate of 1,66% (2020: 1,66%). Funds on deposit have a maturity of three months or less.

The carrying amounts disclosed above reasonably approximate fair values at year-end.

24. RISK MANAGEMENT

24.1 Financial risks

The main categories of financial risks associated with the financial instruments held by the business' shareholders' fund are summarised in the following table:

Type of risk	Description
Market risk	Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise the following: • **Equity price risk:** the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market • **Interest rate risk:** the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and • **Currency risk:** the risk that the fair value or future cash flows of a financial instrument or liability will fluctuate owing to changes in foreign exchange rates.
Credit risk	Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk includes: • **Reinsurance risk:** concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.
Liquidity risk	Liquidity risk is the risk that the business will encounter difficulty in meeting its obligations associated with financial liabilities.
Insurance risk	Insurance risk is the risk, other than financial risk, transferred from the holder of a contract to the insurer. The group has included: • **Underwriting risk:** the risk that the actual experience relating to mortality, disability, medical and short-term insurance risks will deviate negatively from the expected experience used in the pricing/valuation of solutions • **Lapse risk:** the risk of financial loss due to negative lapse experience • **Expense risk:** the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities, and • **Concentration risk:** the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.
Capital adequacy risk	Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience, worse (to the extent as defined) than that which has been assumed in the financial soundness valuation.

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24. RISK MANAGEMENT continued

24.1 Financial risks continued

The credit risk and liquidity risk notes include financial instruments from the shareholder and policyholder, while the market risk notes only include shareholder instruments and policyholder instruments that are not linked or not market-related.

On 11 October 2019, Bifm transferred the pooled funds to newly formed and registered CIU trusts, effectively moving all third-party investments off the Bifm balance sheet and retaining the investments and units directly owned by Bifm. The CIU funds are now consolidated in the group's financials where the group has invested more than 20%. A corresponding liability to the investors is reflected in note 8 and the assets are included as part of note 4.

24.2 Market risk

The group is exposed to financial risk, credit risk and liquidity risk on shareholder financial instruments as well as financial instruments backing non-participating or non-market-linked insurance contract liabilities. For investment contracts, policyholder assets and liabilities will offset one another and therefore there is no exposure to market risk. Market risk arises from the uncertain movement in the fair value of financial instruments that stems principally from potential changes in sentiment towards the instrument, the variability of future earnings that is reflected in the current perceived value of the instrument and the fluctuations in interest rates and foreign currency exchange rates.

The shareholders' fund investments in equities and interest-bearing instruments are valued at fair value and are therefore susceptible to market fluctuations.

Comprehensive measures and limits are in place to control the exposure to market risk. Continuous monitoring takes place to ensure that appropriate assets are held in support of the life operations' long-term solvency capital and the business' investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

24.3 Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is the group's and company's objective to minimise interest rate risk.

Floating rate instruments expose the group and company to cash flow interest risk, whereas fixed interest rate instruments expose the group and company to fair value interest risk.

The group's and company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The investment committee sets the limits in the investment mandates, and meets quarterly to review compliance with the agreed mandates, and where necessary reviews the limits.

Sensitivity analysis to interest rate risk

The group is exposed to interest rate risk through a change in interest income or expense based on floating rate instruments and through changes in fair value of financial instruments at fair value through profit or loss based on fixed rate instruments. The impact on equity is the post-tax amount.

The purpose of this note is to enable the user to have a better understanding of the effect of interest rate movement on interest-bearing instruments. Interest rate risk relates to variable rate financial instruments, call deposit accounts and floating rate fixed income securities. The following table sets out the carrying amounts of the group's financial instruments that are exposed to interest rate risk.

24. RISK MANAGEMENT continued

24.3 Interest rate risk continued

Variable interest rates

	GROUP			
	Change in variables %	Value P'000	Increase/ (decrease) in profit before tax P'000	Increase/ (decrease) in equity P'000
2021				
BWP	**0,75**	**361 786**	**2 713**	**2 116**
BWP	**(0,75)**	**361 786**	**(2 713)**	**(2 116)**
USD	**0,5**	**3 730**	**19**	**15**
USD	**(0,5)**	**3 730**	**(19)**	**(15)**
2020				
BWP	0,75	277 225	2 079	1 622
BWP	(0,75)	277 225	(2 079)	(1 622)
USD	0,5	48 010	240	187
USD	(0,5)	48 010	(240)	(187)

	COMPANY			
	Change in variables %	Value P'000	Increase/ (decrease) in profit before tax P'000	Increase/ (decrease) in equity P'000
2021				
BWP	**0,5**	**24 768**	**124**	**97**
BWP	**(0,5)**	**24 768**	**(124)**	**(97)**
2020				
BWP	0,5	68 412	342	267
BWP	(0,5)	68 412	(342)	(267)

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24. RISK MANAGEMENT continued

24.4 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group's principal transactions are carried out in Botswana Pula and its exposure to foreign exchange risk arises primarily with US Dollar and South African Rand. It is the group's objective to minimise currency risk.

The main foreign exchange risk arises from recognised assets denominated in currencies other than those in which insurance and investment liabilities are expected to be settled. The group manages its South African Rand foreign currency risk by hedging transactions in line with the expected duration of risk.

	GROUP
	P'000
2021	
Equity instruments	**37 294**
Money market instruments	**2 230**
Bonds	**1 501**
Foreign currency exposure	**41 025**
Average rate	**11,28**
Closing rate	**11,76**
2020	
Equity investments	32 903
Money market instruments	3 139
Bonds	5 614
Foreign currency exposure	41 656
Average rate	10,87
Closing rate	10,58

Currency sensitivity

The following table demonstrates the sensitivity (for shareholder funds and assets backing non-participating policies) to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	GROUP			
	Change in variables %	Value P'000	Increase/ (decrease) in profit before tax P'000	Increase/ (decrease) in equity P'000
2021				
USD	**3**	**41 025**	**1 231**	**960**
USD	**(3)**	**41 025**	**(1 231)**	**(960)**
2020				
USD	2	41 656	833	650
USD	(2)	41 656	(833)	(650)

24. RISK MANAGEMENT continued

24.5 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) in equities and debt securities, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market. The price risk movement on bonds is included in the interest rate risk note.

Price sensitivity analysis

The following table shows the effect of price changes on domestic market and foreign market equities. The sensitivity analysis uses the Domestic Company Index which is the principle stock index of the BSE and the Morgan Stanley Capital Index which is a market capitalisation weighted benchmark index made up of equities from 23 countries including the United States. Indices are free-float weighted equity indices.

The disclosures are based on shareholder financial instruments as well as financial instruments backing non-participating or not market-linked insurance contract liabilities.

	GROUP			
	Change in variables %	Value P'000	Increase/ (decrease) in profit before tax P'000	Increase/ (decrease) in equity P'000
2021				
World Equity Index	**1,8**	**37 294**	**671**	**523**
Botswana Unit Trusts	**1**	**322 991**	**3 230**	**2 519**
Total exposure		**360 285**	**3 901**	**3 042**
2020				
BSE	3	60 017	1 801	1 405
World Equity Index	1	32 903	329	257
Botswana Unit Trusts	2	256 587	5 132	4 003
Total exposure		349 507	7 262	5 665

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24. RISK MANAGEMENT continued

24.6 Credit risk

Credit risk in the group arises from the possibility of investments in bonds, offshore money markets, long-term reinsurance assets, insurance and other receivables, reinsurance contracts receivables, deferred insurance acquisition cost, local money markets, policy loans and other loans, related party receivables and cash and bank balances with banks not being redeemed by the relevant counterparties when they become due.

The following policies and procedures are in place to mitigate the group's exposure to credit risk:

A group credit risk policy setting out the assessment and determination of what constitutes credit risk for the group. Compliance with the policy is monitored and exposures and breaches are reported to the investment committee. The policy is regularly reviewed for pertinence and for changes in the risk environment. It is the group's objective to minimise credit risk.

Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segments, i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held.

The group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.

Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular review.

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. There is no concentration of risk with respect to customer balances as the company has a large number of varied customers.

The policyholder and shareholder funds follow specific investment mandates that have been agreed with asset managers. These mandates depict how much each type of asset holds in each portfolio based on their perceived risk thereby reducing both concentration of specific assets and of currency. There is also diversity in the different sectors of the economy in which our funds are invested (refer to note 4). Investments in Government bonds, money markets and corporate bonds are managed by Bifm, the asset management subsidiary, as per signed mandates.

There is no concentration on money markets, cash and bank; the risk is spread as the group and company invest with various banks in the country.

24. RISK MANAGEMENT continued

24.6 Credit risk continued

Maximum credit risk exposure

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives.

The disclosures are based on both shareholder and policyholder assets.

	GROUP	
	2021 P'000	2020 P'000
Long-term reinsurance assets	10 855	9 259
Bonds		
– Government	5 003 099	5 185 414
– Corporate (listed, unlisted)	3 660 350	4 096 673
Money market instruments	3 144 625	2 109 039
Loans at amortised cost	31 957	36 132
Insurance and other receivables	280 725	284 199
Cash, deposits and similar securities	137 418	239 637
Maximum credit risk exposure	12 269 029	11 960 353

	COMPANY	
	2021 P'000	2020 P'000
Other receivables	443	4 494
Related party balances	1 993	30
Cash, deposits and similar securities	24 768	68 412
Maximum credit risk exposure	27 204	72 936

Cash and cash equivalents are held by entities with acceptable credit ratings. Related party balances are considered to be of acceptable/high credit quality due to the financial position of the counterparties.

Financial assets pledged as collateral

There are no financial assets that have been pledged as collateral for financial liabilities or contingent liabilities.

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24. RISK MANAGEMENT continued

24.6 Credit risk continued

Credit quality of interest-bearing financial assets

The table below shows the maximum exposure to credit risk for the components of the balance sheet. Generally, most companies' financial instruments do not have official credit ratings therefore the majority of balances are not rated. Moody's Investors Service retained the stable outlook and the A2 rating (2020: A2 rating) for both foreign and domestic bonds. The A2 rating is based on the assessment that balances potential challenges associated with a country having a small-size economy and middle-income status, against the strength relating to the country's sound policy framework and effectiveness of Government. The assessment further noted that the country has institutional strength supporting a well-designed macroeconomic framework and a stable political environment.

	GROUP			
	Botswana Pula	A2 rated	Not rated	Total P'000
2021				
Unlisted bonds				
Long-term reinsurance assets	10 855	–	10 855	10 855
Government bonds	3 349 704	3 349 704	–	3 349 704
Corporate bonds and other	5 313 745	–	5 313 745	5 313 745
Money markets	3 144 625	–	3 144 625	3 144 625
Other loans at amortised cost	31 957	–	31 957	31 957
Insurance and other receivables	280 725	–	280 725	280 725
Cash and bank balances	137 418	–	137 418	137 418
Total assets	12 269 029	3 349 704	8 919 325	12 269 029
2020				
Unlisted bonds				
Long-term reinsurance assets	9 259	–	9 259	9 259
Government bonds	5 185 414	5 185 414	–	5 185 414
Corporate bonds and other	4 096 673	–	4 096 673	4 096 673
Money markets	2 109 039	–	2 109 039	2 109 039
Other loans at amortised cost	36 132	–	36 132	36 132
Insurance and other receivables	284 199	–	284 199	284 199
Cash and bank balances	239 637	–	239 637	239 637
Total assets	11 960 353	5 185 414	6 774 939	11 960 353

Corporate bonds and other are held by reputable financial institutions and parastatals. An annual independent evaluation is performed on the financial strengths of the corporates to assess the credit risk on these bonds. Continuous monitoring is also performed. Money market investments are with reputable local banks and reputable foreign fund managers with good financial wealth. Policy loans were secured by the policy investment value. Trade and other receivables are on 30-day terms (refer to note 5).

24. RISK MANAGEMENT continued

24.6 Credit risk continued

Collateral held in respect of financial assets

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. Government bonds do not have collateral as these are deemed low-risk and recoverable.

No transfer of ownership takes place in respect of collateral and any such collateral accepted from counterparties may not be used for any purpose other than being held as security.

	2021		2020	
	Collateral held P'000	Credit exposure P'000	Collateral held P'000	Credit exposure P'000
Unlisted bonds				
ABC Holdings Limited	–	–	62 563	62 500
Allied Investments Limited	200 000	160 000	211 930	120 000
Babereki Investments Proprietary Limited	38 123	33 302	38 427	50 000
Botho Park	–	26 000	190 000	26 000
Botswana Savings Bank	–	50 000	–	50 000
Cash Bazaar Holdings	150 000	100 000	150 000	100 000
First National Bank of Botswana	–	637 078	–	517 172
Flip Coin Proprietary Limited	117 381	83 312	165 416	83 312
Lonrho Hotels Botswana	12 500	10 000	30 000	30 000
Meybeernick Investment Proprietary Limited	–	100 000	–	100 000
Prime Time Holdings	81 250	65 000	81 200	65 000
RDC Properties Limited	156 250	125 000	195 000	125 000
Real People Investment Holdings	–	16 951	–	38 403
Stanbic Bank PLC	–	1 368 337	–	977 815
Stanbic Bank Botswana Limited (SBL061)	–	49	–	49 144
Standard Bank	–	756 274	–	449 986
The FAR Property Company Limited	60 000	40 000	136 075	100 000
Three Partners Resort Proprietary Limited	79 288	63 430	558 860	63 430
Debt Participation Capital Fund (DPCF006)	–	19 190	–	19 190
Debt Participation Capital Fund (DPCF007)	–	12 070	–	12 070
Water Utilities Corporation (WUC002)	–	100 000	–	100 000
Total	894 792	3 765 993	1 819 471	3 139 022

Impairment assessment

Accounting policy on impairment of financial assets, details the approach to determining whether an instrument or a portfolio of instruments is subject to 12-month ECLs or lifetime ECLs.

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24. RISK MANAGEMENT continued

24.6 Credit risk continued

Impairment of insurance receivables at amortised cost – incurred loss model

The group applies the incurred loss model in calculating ECLs for insurance receivables. The group reviews its receivables ageing for balances which meet the criteria below:

- More than 90 days past due
- Over 90 days and assessed as unlikely to pay its credit obligations in full without realisation of collateral.

Arrear balances meeting the above criteria are provided for at 100% of the amount exceeding 90 days.

	Impairment method	Balance at 31 Dec 2021 P'000	Balances >90 days P'000	Provision %	Loss allowance P'000
Premium and reinsurance debtors					
Outstanding premiums	Incurred loss	**106 399**	**3 253**	**100**	**3 253**
Due from reinsurers	Incurred loss	**68 715**	**–**	**100**	**–**
					3 253

	Impairment method	Balance at 31 Dec 2020 P'000	Balances >90 days P'000	Provision %	Loss allowance P'000
Premium and reinsurance debtors					
Outstanding premiums	Incurred loss	173 989	11 782	100	11 782
Due from reinsurers	Incurred loss	34 297	–	100	–
					11 782

The outstanding premiums and amounts were assessed at the end of 2021 and the assumptions adjusted for the expected delays in collection of premiums due to the effects of COVID-19 on clients. The receivables are generally collected over a maximum of 45 days to 90 days and the collection period is unlikely to exceed 12 months even after factoring in the impact of COVID-19. The current year assessment resulted in a loss allowance of P3,3 million (2020: P11,8 million). The movement in the provision is attributed to P5 million in premium write-offs and P3 million in premium arrears collected.

Incurred loss model = Provision based on actual defaults as at the reporting date.

24. RISK MANAGEMENT continued

24.6 Credit risk continued

Impairment of financial assets at amortised cost – General approach

The group applied the general approach to brokers' loans, agents' loans', staff loans and loans at amortised cost. ECLs are recognised in three stages as follows:

- Stage 1: Upon initial recognition and annually thereafter; for exposures where there has not been a significant increase in credit risk, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL)
- Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL)
- Stage 3: For exposures where the balances are credit impaired (non-performing), ECLs are provided for over the remaining life of the exposure (a lifetime ECL).

Broker loans and agent advances/commissions	Impairment method	Balance as at 31 Dec 2021 P'000	PiT (PD) %	Exposed to default P'000	LGD %	ECLs (lifetime) P'000
Broker loans	GA/stage 2	**1 102**	**70,00**	**771**	**100**	**771**
Advances/loans to brokers exposed to default	GA/stage 2	**17 467**	**96,00**	**16 768**	**69**	**11 536**
Loans to agents	GA/stage 2	**26 508**	**100,00**	**26 508**	**72**	**19 119**
						31 426
Other receivables						
Staff debtors	GA/stage 2	**1 197**	**76,36**	**914**	**25**	**229**
Sundry debtors	GA/stage 2	**17 131**	**70,00**	**11 992**	**23**	**2 734**
						2 963
Total estimated credit losses as at 31 December 2021						**34 389**

GA = ECL calculated using the general approach.
Stage 2 = Lifetime ECL due to significant increase in risk.

The gross carrying amounts of the other receivables in the current year were higher than the prior year by P44,9 million (2020: P15,8 million). In addition, the group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Loan at amortised cost

	Impairment method	Balance as at 31 Dec 2021 P'000	PiT (PD) %	Exposed to default P'000	LGD %	ECLs (lifetime) P'000
BOPEU loan (note 8.5)	GA/stage 2	**34 348**	**38,67**	**13 281**	**18**	**2 391**
						2 391

GA = ECL calculated using the general approach.
Stage 2 = Lifetime ECL due to significant increase in risk.

The loan receivable from BOPEU was impaired after management assessed the probability that future repayments would be exposed to default risk as a result of the COVID-19 impact on the economy. Refer to note 28 for more information on the COVID-19 impact.

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24. RISK MANAGEMENT continued

24.6 Credit risk continued

Loan at amortised cost continued

Broker loans and agent advances/commissions	Impairment method	Balance as at 31 Dec 2020 P'000	PiT (PD) %	Exposed to default P'000	LGD %	ECLs (lifetime) P'000
Broker loans	GA/stage 2	1 602	57,80	926	100	926
Broker advances	GA/stage 2	19 926	96,43	19 215	49	9 415
Loans to agents	GA/stage 2	26 380	99,93	26 362	75	19 639
						29 980
Other receivables						
Staff debtors	GA/stage 2	1 381	76,36	1 055	25	264
Sundry debtors	GA/stage 2	4 192	25,00	1 048	30	314
						578
Total estimated credit losses as at 31 December 2020						30 558

GA = ECL calculated using the general approach.
Stage 2 = Lifetime ECL due to significant increase in risk.

Loan at amortised cost

	Impairment method	Balance as at 31 Dec 2020 P'000	PiT (PD) %	Exposed to default P'000	LGD %	ECLs (lifetime) P'000
BOPEU loan (note 8.5)	GA/stage 2	36 132	44,81	16 191	18	2 914
						2 914

Related party receivables

For the year ended 31 December 2021, the group has not recorded any impairment of receivables relating to amounts owed by related parties (2020: Pnil). Related party balances are all cleared within 60 days and as at 31 December 2021, the related party balances were immaterial.

24.7 Liquidity risk

Liquidity risk arises from the potential inability of the group paying its policyholders and short-term creditors when they become due or they mature because assets are not properly matched. There is an actuarial committee and an investment committee that meet periodically to review the matching of assets and liabilities and other investment decisions; the group is continually looking for investments that match its liabilities.

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of debt facilities from various financiers.

The maturity analysis of policyholder liabilities is based on expected maturities as modelled by the actuaries. The investment contracts are due on demand. Asset maturities have been disclosed on the basis of contractual maturities. The disclosures are based on both shareholder and policyholder assets.

24. RISK MANAGEMENT continued

24.7 Liquidity risk continued

	COMPANY				
	<1 year P'000	1 – 5 years P'000	>5 years	On demand	Total
2021					
Financial assets					
Insurance and other receivables	**443**	**–**	**–**	**–**	**443**
Related party balances	**1 993**	**–**	**–**	**–**	**1 993**
Cash, deposits and similar securities	**24 768**	**–**	**–**	**–**	**24 768**
	27 204	**–**	**–**	**–**	**27 204**
Financial liabilities					
Insurance and other payables	**23 534**	**–**	**–**	**–**	**23 534**
IFRS 16 – Lease liability	**2 080**	**6 459**	**–**	**–**	**8 539**
	25 614	**6 459**	**–**	**–**	**32 073**
2020					
Financial assets					
Insurance and other receivables	4 494	–	–	–	4 494
Related party balances	30	–	–	–	30
Cash, deposits and similar securities	68 412	–	–	–	68 412
	72 936	–	–	–	72 936
Financial liabilities					
Insurance and other payables	27 081	–	–	–	27 081
Related party balances	945	–	–	–	945
IFRS 16 – Lease liability	2 249	11 765	–	–	14 014
	30 275	11 765	–	–	42 040

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24. RISK MANAGEMENT continued

24.7 Liquidity risk continued

Maturity analysis of financial assets and financial liabilities

The table that follows summarises the maturity profile of the financial assets and financial liabilities of the group based on remaining undiscounted contractual obligations, including interest payable and receivable.

	GROUP					
	Carrying value P'000	<1 year P'000	1 – 5 years P'000	>5 years P'000	On demand P'000	Total P'000
2021						
Financial assets						
Long-term reinsurance assets	10 855	10 855	–	–	–	10 855
Investment in unlisted property companies	1 173 325	–	–	–	1 173 325	1 173 325
Bonds (Government, public authority, listed and unlisted corporates)	8 663 449	1 173 123	1 673 526	6 013 573	–	8 860 222
Equity investments	2 403 845	–	–	–	2 403 845	2 403 845
Money market instruments	3 144 625	3 144 625	–	–	–	3 144 625
Other loans at amortised cost	31 957	4 716	9 457	–	–	14 173
Insurance and other receivables	280 725	280 725	–	–	–	280 725
Cash, deposits and similar securities	137 418	137 418	–	–	–	137 418
Total undiscounted assets	15 846 199	4 751 462	1 682 983	6 013 573	3 577 170	16 025 188
Financial liabilities						
Long-term policyholder liabilities	10 444 306	239 787	850 809	9 115 204	238 506	10 444 306
External investors in consolidated funds	3 635 183	1 054 175	110 796	208 741	2 300 702	3 674 414
Related party balances	1 589	1 589	–	–	–	1 589
Insurance and other payables	616 587	616 587	–	–	–	616 587
IFRS 16 – Lease liability	9 234	4 439	4 795	–	–	9 234
Total undiscounted liabilities	14 706 899	1 916 577	966 400	9 323 945	2 539 208	14 746 130

24. RISK MANAGEMENT continued

24.7 Liquidity risk continued

Maturity analysis of financial assets and financial liabilities continued

The table that follows summarises the maturity profile of the financial assets and financial liabilities of the group based on remaining undiscounted contractual obligations, including interest payable and receivable.

	GROUP					
	Carrying value P'000	<1 year P'000	1 – 5 years P'000	>5 years P'000	On demand* P'000	Total P'000
2020						
Financial assets						
Long-term reinsurance assets	9 259	9 259	–	–	–	9 259
Investment in unlisted property companies	1 055 880	–	–	–	1 055 880	1 055 880
Bonds (Government, public authority, listed and unlisted corporates)	9 282 087	255 489	2 108 723	7 295 457	–	9 659 670
Equity investments	2 042 429	–	–	–	2 042 429	2 042 429
Money market instruments	2 109 039	2 109 039	–	–	–	2 109 039
Other loans at amortised cost	36 132	4 716	50 380	3 096	–	58 192
Insurance and other receivables	284 199	284 199	–	–	–	284 199
Cash, deposits and similar securities	239 637	239 637	–	–	–	239 637
Total undiscounted assets	15 058 662	2 902 339	2 159 103	7 298 553	3 098 309	15 458 305
Financial liabilities						
Long-term policyholder liabilities	10 847 636	162 509	747 779	9 759 150	178 198	10 847 636
External investors in consolidated funds	2 519 241	862 289	249 330	401 336	890 983	2 403 937
Related party balances	3 536	3 536	–	–	–	3 536
Insurance and other payables	625 907	625 907	–	–	–	625 907
IFRS 16 – Lease liability	16 858	5 626	11 991	791	–	18 408
Total undiscounted liabilities	14 013 178	1 659 867	1 009 100	10 161 277	1 069 181	13 899 424

* *In 2021, management reviewed the classification on maturity analysis for financial assets and liabilities previously classified under 'open ended'. As a result of the review, the classification has been changed to disclose them as 'on demand'. The enhancement is believed to provide more relevant information to the users due to the nature of the assets and liabilities. To provide comparability, the prior year balances have been restated.*

Policyholders' insurance liabilities are allocated into the maturity profiles based on the estimated present value of claims obtained through an actuarial modelling process.

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24. RISK MANAGEMENT continued

24.8 Insurance risk

The principal risk the group faces under non-life insurance contracts is the actual claims and benefit payments or the timing thereof differs from expectations. This is influenced by the frequency of claims, severity of claims and actual benefits paid. Therefore, the objective of the group is to have sufficient reserves available to cover these liabilities.

The risk exposure is mitigated by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The company purchases reinsurance as part of its mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the company's net exposure to catastrophe losses. Retention limits for the excess of reinsurance vary by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the group has reinsurance arrangements, it is relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the group substantially dependent upon a single reinsurance contract. Reinsurance is placed with reputable institutions.

25. FAIR VALUE DISCLOSURES

Determination of fair value and fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2021:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) P'000	Significant observable inputs (Level 2) P'000	Significant unobservable inputs (Level 3) P'000	Total fair value P'000
2021				
Non-financial assets				
Investment properties – physical properties	–	–	10 160	10 160
Financial assets				
Investment properties – investment in unlisted property companies	–	–	1 173 325	1 173 325
Bonds	3 349 704	–	5 313 746	8 663 450
– Government	3 349 704	–	–	3 349 704
– Corporate bonds – unlisted	–	–	5 313 746	5 313 746
Money market instruments	–	3 144 625	–	3 144 625
Equity investments	2 126 954	–	276 891	2 403 845
	5 476 658	3 144 625	6 774 122	15 395 405
Financial liabilities				
External investors in consolidated funds	–	3 635 183	–	3 635 183
Derivatives instrument	–	42 366	–	42 366
	–	3 677 549	–	3 677 549

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25. FAIR VALUE DISCLOSURES continued

Determination of fair value and fair value hierarchy continued

	Fair value measurement using			
	Quoted prices in active markets (Level 1) P'000	Significant observable inputs (Level 2) P'000	Significant unobservable inputs (Level 3) P'000	Total fair value P'000
2020				
Non-financial assets				
Investment properties – physical properties	–	–	10 160	10 160
Financial assets				
Investment properties – investment in unlisted property companies	–	–	1 055 880	1 055 880
Bonds	4 596 523	–	4 685 565	9 282 088
– Government	4 596 523	–	–	4 596 523
– Corporate bonds – unlisted	–	–	4 685 565	4 685 565
Money market instruments	–	2 109 039	–	2 109 039
Equity investments	1 863 572	–	178 857	2 042 429
	6 460 095	2 109 039	5 930 462	14 499 596
Financial liabilities				
External investors in consolidated funds	–	2 519 241	–	2 519 241
Derivatives instrument	–	2 400	–	2 400
	–	2 521 641	–	2 521 641

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or industry group, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the group is the last trading price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) are determined by using valuation techniques to maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 2

Money market instruments – Refer to note 4.1 for interest rates. Also refer to the accounting policy note on fair value and as per the valuation techniques table on the next page.

External investors in consolidated funds – Refer to the accounting policy note on fair values and as per the valuation techniques table on the next page.

Policyholder liabilities under insurance contracts – Refer to the accounting policy note on fair values and as per the valuation techniques table on the next page.

25. FAIR VALUE DISCLOSURES continued

Determination of fair value and fair value hierarchy continued

Level 3 valuation

Investment properties – Refer to note 4.4 on how fair value is determined.

Unlisted bonds – Refer to note 4.1 on how the fair value is determined.

Policy loans and other loan advances – Refer to note 4.3 on how the fair valuation is determined.

Equity investments – The fair value of the assets is calculated based on units held and unit prices provided by the fund managers.

If one or more of the significant inputs is not based on observable market data, the unlisted instrument is included in Level 3.

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	GROUP						
	Investment in physical properties P'000	Investment in unlisted property companies P'000	Equity investments P'000	Policy loans P'000	Other loan advances P'000	Bonds P'000	Total assets P'000
2021							
Level 3 financial assets							
Opening balance	**10 160**	**1 055 880**	**178 857**	**–**	**–**	**4 685 565**	**5 930 462**
Total gains/(loss) in comprehensive income	**–**	**(4 770)**	**(5 678)**	**–**	**–**	**618 136**	**607 687**
Reclassification to amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisitions	**–**	**122 215**	**11 373**	**–**	**–**	**140 369**	**273 957**
Transfer from investment properties	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(91 632)**	**–**	**–**	**(9)**	**(91 641)**
Closing balance	**10 160**	**1 173 325**	**92 920**	**–**	**–**	**5 444 061**	**6 720 466**
2020							
Opening balance	121 615	729 294	267 485	–	–	4 022 349	5 140 743
Total gains/(loss) in comprehensive income		7 526	(8 369)	–	–	618 136	617 293
Acquisitions	–	207 605	11 373	–	–	–	218 978
Disposals	(111 455)	–	(91 632)	–	–	113 002	(90 085)
Transfer from investment properties	–	111 455	–	–	–	(67 922)	43 533
Closing balance	10 160	1 055 880	178 857	–	–	4 685 565	5 930 462

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25. FAIR VALUE DISCLOSURES continued

Determination of fair value and fair value hierarchy continued

Gains and losses (realised and unrealised) included in profit or loss

	GROUP 2021 P'000	GROUP 2020 P'000
Total gains or losses included in profit or loss for the period	**607 687**	728 748
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	**(972 658)**	(436 803)

There were no transfers from Level 1 to Level 2 fair value measurements during the year ended 31 December 2021 (2020: nil).

Valuation techniques used in determining the fair value of financial instruments

Instrument	Applicable to level	Valuation basis	Significant observable inputs	Significant unobservable inputs	Range of unobservable inputs
Investment in physical properties	3	DCF model	Consumer price index	Estimated cash flows plus capitalisation rate and vacancy rates	Capitalisation rate: 11,6% Vacancy rate: 0% to 13,4% Discount rate: 17,16%
Investment in unlisted property companies	3	Net asset value of underlying assets derived using the DCF model	Market price for underlying properties	Estimated cash flows plus capitalisation rate and vacancy rates	Capitalisation rate: 11,6% Vacancy rate: 0% to 13,4% Discount rate: 17,16%
Money markets	2	DCF model	Unit price	–	–
Equity investments (unlisted)	3	Net fair value of underlying assets, DCF model	Cash flow plus risk-adjusted rate	Discount rate, budgets and forecasts	Discount rate: 14,5% and 17,4%
Unit funds (unlisted)	2	DCF, earnings multiple, units held multiplied by unit prices	Cash flow plus risk-adjusted rate unit prices	–	–
Other loans	3	DCF model	Cash flow plus risk-adjusted rate	Discount rate, cash flows, interest rate curve, credit risk spread	Interest rate curve: 3,2% to 6,1% Credit risk spread: 0,7% to 30,18% Export rate curve: 2,84% to 5,63%
Unlisted bonds	3	DCF model	Risk-free rate plus credit spread	Discount rate, cash flows, interest rate curve, credit risk spread	Interest rate curve: 3,2% to 6,1% Credit risk spread: 0,7% to 30,18% Export rate curve: 2,84% to 5,63%
External investors in consolidated funds	2	Net fair value of related assets	Unit price	–	–
Derivative instrument – foreign exchange swap transaction	2	DCF model, currency, interest rate	Risk-free rate plus credit spread	–	–

25. FAIR VALUE DISCLOSURES continued

Determination of fair value and fair value hierarchy continued

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

	GROUP				
	Carrying amount P'000	Effect of a 10% increase in estimated cash flows P'000	Effect of a 10% decrease in estimated cash flows P'000	Effect of a 1% increase in capitalisation rate P'000	Effect of a 1% decrease in capitalisation rate P'000
2021					
Investment in physical properties	**10 160**	**792**	**(792)**	**(813)**	**813**
Investment in unlisted property companies	**1 173 325**	**91 519**	**(91 519)**	**(93 866)**	**93 866**
2020					
Investment in physical properties	10 160	792	(792)	(813)	813
Investment in unlisted property companies	1 055 880	82 359	(82 359)	(84 470)	84 470

	GROUP				
	Carrying amount P'000	Effect of a 10% increase in estimated cash flows P'000	Effect of a 10% decrease in estimated cash flows P'000	Effect of a 2% increase in capitalisation rate P'000	Effect of a 2% decrease in capitalisation rate P'000
2021					
Bonds	**5 444 061**	**(424 637)**	**424 637**	**(84 927)**	**84 927**
Total	**5 444 061**	**(424 637)**	**424 637**	**(84 927)**	**84 927**
2020					
Bonds	4 685 565	(365 474)	365 474	(73 095)	73 095
Total	4 685 565	(365 474)	365 474	(73 095)	73 095

	GROUP		
	Carrying amount P'000	Effect of a 2% increase in unit price P'000	Effect of a 2% decrease in unit price P'000
2021			
Equity investments	**276 891**	**4 319**	**(4 319)**
2020			
Equity investments	178 857	2 790	(2 790)

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25. FAIR VALUE DISCLOSURES continued

Investment policy

The BIHL Group through its asset management company, Bifm, a traditional investment manager, manages a comprehensive range of distinct asset classes, each against an appropriate benchmark that acts as the neutral position. Bifm is an active investment manager that implements positions that deviate from the benchmark within predetermined constraints. Bifm aims to capture and create value from long-term relative valuation differences, both between asset classes and within an asset class between individual securities.

Bifm implements a value-style bias that complements its investment philosophy. Bifm is of the view that pockets of inefficiency exist in capital markets. This presents opportunities to purchase undervalued securities and hold them until their market value equals or exceeds their intrinsic value. Bifm aims to realise these relative value anomalies over the long term and avoid short-term fluctuations or market noise.

Bifm combines investment strategies with the aim of delivering superior investment returns given a level of risk over the long term (three years and more). For local equity security selection, Bifm uses a bottom-up approach. The bottom-up approach is research-intensive and focuses on individual companies as a starting point. Companies, sectors and geographical regions not covered by a portfolio manager's universe may be neglected.

To compensate, Bifm also applies a top-down decision-making process to implement tactical positions. The top-down approach utilises macroeconomic data, relative asset class valuations, market sector valuations and the prospects of geographical regions.

Bifm adopts fundamental analysis to place a fair value on individual securities and to identify mispriced securities with upside potential. Fundamental analysis is a primary function and of high importance as it guides us on security selection.

When selecting offshore managers, Bifm appoints managers with differing styles and approaches. The rationale for using the different styles reflects our appreciation of the fact that style diversification is a risk management tool as well as a way of taking advantage of the anomalies that could be identified by each style.

Equity – Bifm invests for the long-term, three- to five-year period, to maximise returns at the lowest possible risk. Bottom-up stock-picking and fundamental stock analysis coupled with a value-style bias are used for portfolio construction.

Fixed income – The approach used for long-dated bonds and short-dated money market instruments differs:

- Long-dated bonds – Bifm believes that value can be created through active duration management, taking into account macroeconomic factors such as inflation and interest rates. This reflects a top-down approach for the management of bonds, which is applied both locally and offshore. Bifm utilises fixed and floating instruments as different assets to match different liabilities, to benefit from the shape of the yield curve, and as a tool to manage duration.
- Cash and money market – Bifm manages cash and short-dated money market instruments primarily for liquidity purposes. Bifm minimises credit risk by investing with reputable banks. Bifm negotiates to obtain high interest rates on behalf of its clients.

Property – Property is a unique asset class, with bond-like and equity-like features, that matches the liability profiles of a large number of pension funds. Enhanced yields and rental escalations are received over time. The philosophy is to invest in A-grade properties that we believe are more likely to attract and retain corporate tenants. Property investments constitute a significant area of Bifm's drive to develop the local economy and capital markets. Bifm's subsidiary, Khumo, is a fully fledged property development and management company.

25. FAIR VALUE DISCLOSURES continued

Investment policy continued

Alternative investments – The alternative assets that Bifm invests in are private equity, private debt and hedge funds. Alternatives are utilised where the risk-reward trade-off is believed to be superior. Examples are:

- Private equity is becoming a more important asset class globally. In the Botswana context, private equity is a progressive approach to investment management because it is a catalyst for economic development. Bifm invests in local, regional and global private equity funds.
- Specialised portfolios and insurance portfolios utilise private debt instruments for matching purposes. In Botswana, private debt is a substitute for listed debt instruments. Listed debt instruments are in short supply in Botswana.
- Offshore hedge funds are currently used as an alternative to offshore bonds given our bearish view on the prospects for offshore bonds.

On 11 October 2019, Bifm transferred the pooled funds to newly formed and registered CIU trusts, effectively moving all third-party investments off the Bifm balance sheet and retaining the investments and units directly owned by Bifm. The CIU funds are now consolidated in the group's financials where the group has invested more than 20%. And a corresponding liability to the investors is reflected in note 8 and the assets are included as part of note 4.

26. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below summarises categories of financial assets and financial liabilities held by the group.

	GROUP					
	Financial assets designated at fair value through profit or loss P'000	Financial assets at amortised cost P'000	Financial liabilities designated at fair value through profit or loss P'000	Financial liabilities held at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
2021						
Financial assets						
Investment in unlisted property companies	1 173 325	–	–	–	–	1 173 325
Bonds (Government, public authority, listed and unlisted corporates)	8 663 449	–	–	–	–	8 663 449
Money market instruments	3 144 625	–	–	–	–	3 144 625
Equity investments	2 403 845	–	–	–	–	2 403 845
Other receivables	–	174 326	–	–	–	174 326
Cash, deposits and similar securities	–	137 418	–	–	–	137 418
Loans at amortised cost	–	31 957	–	–	–	31 957
Total financial assets	15 385 244	343 701	–	–	–	15 728 945
Financial liabilities						
External investors in consolidated funds	–	–	3 635 183	–	–	3 635 183
Derivatives instrument	–	–	–	42 366	–	42 366
Lease liabilities	–	–	–	–	9 234	9 234
Related party balances	–	–	–	–	1 589	1 589
Other payables	–	–	–	–	525 381	525 381
Total financial liabilities	–	–	3 635 183	42 366	536 204	4 213 753

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26. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

	GROUP					
	Financial assets designated at fair value through profit or loss P'000	Financial assets at amortised cost P'000	Financial liabilities designated at fair value through profit or loss P'000	Financial liabilities held at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
2020						
Financial assets						
Investment in unlisted property companies	1 055 880	–	–	–	–	1 055 880
Bonds (Government, public authority, listed and unlisted corporates)	9 282 087	–	–	–	–	9 282 087
Money market instruments	2 109 039	–	–	–	–	2 109 039
Equity investments	2 042 429	–	–	–	–	2 042 429
Other receivables	–	110 210	–	–	–	110 210
Cash, deposits and similar securities	–	239 637	–	–	–	239 637
Loans at amortised cost	–	36 132	–	–	–	36 132
Total financial assets	14 489 435	385 979	–	–	–	14 875 414
Financial liabilities						
External investors in consolidated funds	–	–	2 519 241	–	–	2 519 241
Derivatives instrument	–	–	–	2 400	–	2 400
Lease liabilities	–	–	–	–	16 858	16 858
Related party balances	–	–	–	–	3 536	3 536
Other payables	–	–	–	–	542 278	542 278
Total financial liabilities	–	–	2 519 241	2 400	562 672	3 084 313

During 2021, management reviewed the classification of derivative instrument and the external investors in consolidated funds. As a result, the presentation has been changed to disclose the derivative instrument under financial liability held at fair value through profit or loss due to its nature as being held for trading. External investors in consolidated funds is now being disclosed under financial liabilities designated at fair value through profit or loss. In the previous year, the derivative and external investors in consolidated funds were classified as financial liabilities held at fair value through profit or loss. To provide comparability, the prior year balances have been restated. The change in classification does not affect the economic decision-making of the users of the annual financial statements and management is of the view that this enhancement provides more relevant information to users.

26. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

	COMPANY					
	Financial assets held at fair value through profit or loss P'000	Financial assets at amortised cost P'000	Financial liabilities held at fair value through profit or loss P'000	Financial liabilities held at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
2021						
Financial assets						
Other receivables	–	443	–	–	–	443
Related party balances	–	1 993	–	–	–	1 993
Cash, deposits and similar securities	–	24 768	–	–	–	24 768
Total financial assets	–	27 204	–	–	–	27 204
Financial liabilities						
Trade and other payables	–	–	–	–	23 534	23 534
Total financial liabilities	–	–	–	–	23 534	23 534
2020						
Financial assets						
Other receivables	–	4 494	–	–	–	4 494
Related party balances	–	30	–	–	–	30
Cash, deposits and similar securities	–	68 412	–	–	–	68 412
Total financial assets	–	72 936	–	–	–	72 936
Financial liabilities						
Trade and other payables	–	–	–	–	27 081	27 081
Related party payables	–	–	–	–	945	945
Total financial liabilities	–	–	–	–	28 026	28 026

27. BIFM CEE SCHEME

BIHL provides an employee share scheme for the benefit of the employees of Bifm through the establishment of a trust, registered as a deed of trust signed on 18 December 2017, and a share plan scheme signed on 18 December 2017. A total of 21 849 246 Bifm shares, comprising 25,1% of the issued capital, have been reserved for the share scheme, which will be new shares issued by Bifm. The fair value of such shares has been determined by an independent external valuation expert. Of the 15,1% of the ordinary shares issued by Bifm to be subscribed for by its citizen employees under the share plan scheme, 11% was allocated effective 1 February 2018 and the remaining 4% balance of the shares was transferred to the trust for future allocation. The trust was established for purposes of subscribing for 8 739 698 ordinary shares, representing 10,1% of the issued share capital in Bifm, to be held for the benefit of the citizen employees of Bifm.

28. COVID-19 IMPACT AND RELATED CONSIDERATIONS

It has been slightly over two years since the COVID-19 outbreak in Wuhan, China. The World Health Organisation on 11 March 2020 declared COVID-19 a global pandemic after it spread worldwide. In 2021, we saw mass vaccine rollouts across the globe which offered hope and the virus contained. The virus continues to mutate and this is posing questions on the effectiveness of the vaccines on new variants. The group, like other businesses, was also impacted by the pandemic both negatively and positively in 2021 in the areas as follows.

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28. COVID-19 IMPACT AND RELATED CONSIDERATIONS continued

Premium income

The group delivered a solid set of results in the 2021 financial year, this despite the COVID-19 burdened economic climate. Income and earnings for the year grew despite the headwinds largely attributable to the COVID-19 pandemic and slower than expected economic recovery. Premium income grew by 7% from P2,9 billion in 2020 to P3,1 billion. Recurring premium income grew by 16% from P1,58 billion to P1,83 billion. This represents a sustainable source of profit in the long term. Total new business grew by 34% with most income lines showing a recovery from 2020. The value of new business, which represents the present value of future profits from new business premiums written during the period, recovered well from 2020 levels due to higher sales volumes and a shift towards a more profitable mix of new business. The rising cost of living due to tax hikes, rising fuel costs and unemployment continues to push inflation outside the short- to medium-term range set by the Central Bank (3% to 6%). As a result, household disposable income will continue to be under pressure and will also increase the risk of policy lapses as well as in higher COVID-19 related claims and impact.

Investment income and investments

Investment return income reduced by about 42% compared to the prior period driven by increasing risk-free bond yields in the local bond market. We have seen a huge increase in the bond yield since the last quarter of 2020 as the Government increased bond issuance to finance the increased national budget deficit. As a result, our asset valuation reduced significantly. This, however, translated to increased profits for the business as annuity liabilities valued at the risk-free bond yield curve reduced by a larger amount. Credit assets in the annuity book were revalued to reflect the potential negative economic impact of COVID-19 on the ability of bond issuers to repay their debt. While the markets recovered as countries eased COVID-19 restrictions, the losses suffered on our book were not fully recovered. Volatility of investment income surplus was also high during the period.

Loan receivable at amortised cost – BOPEU long-term loan

In 2020, the BOPEU loan was impaired by P3,2 million to allow for the increased risk of the bond issuers not being able to repay their debt due to the underperforming economy as a result of COVID-19. The impairment review entailed reviewing the adequacy of the security on the loan. In the current year, there was an impairment reversal of P0,8 million as a result of capital repayment of P6 million and a reduction in time to maturity which has reduced our overall exposure resulting in lower ECLs. Refer to note 8 and note 24.7 for the loan movement and ECL inputs, respectively.

Other receivables

Following the lifting of restrictions that came with the 2020 lockdowns, we have since:

- lifted the moratorium that was imposed on financial advisors' loans, clawbacks and new loans and started collections from January 2021
- engaged a collection manager and collection agencies to help with following up outstanding loans and trade receivables
- reviewed the impairment provisions against the outstanding balances which we do regularly to ensure that we hold adequate provisions.

Despite the above, we observed an increase in outstanding balances due from financial advisors and a corresponding increase in the provision balances. There were reversals of impairment on premium income receivables of P3,1 million and write-offs of P5,5 million on the Group Credit Life Assurance and Group Credit Life book that were raised in the previous year.

Insurance benefits and claims

The net claims and benefits are 141% of the prior year. In the current year, the increase in the trend was mainly attributable to the unprecedented excess mortality due to COVID-19. The group paid over P380 million COVID-19 claims across all product lines, representing 16% of the total claims. The net insurance claims and benefits paid increased by 41% in total compared to the prior year. The COVID-19 pandemic has continued to impact the Botswana economy beyond 31 December 2021. Infection rates and mortality rates have gone down globally since the introduction of COVID-19 vaccines. New COVID-19 strains have been reported in various countries, with the latest strain reported in South Africa and reported to be more easily transmittable than the other strains. The vaccination programme has now been rolled down to include all aged 12 years and above and booster vaccines are open to those eligible.

28. COVID-19 IMPACT AND RELATED CONSIDERATIONS continued

Policyholder liabilities under insurance contracts

The group experienced significant claims as a result of excess mortality due to the COVID-19 pandemic. Mortality assumptions were adjusted to reflect the expected impact of excess mortality as a result of the COVID-19 pandemic.

Botswana statistics	Population	Reported cases	Number of deaths	Infection rate %	Case fatality rate %	Population extra mortality rate %
COVID-19 cases	2 432 734	261 913	2 867	10,77	1,09	0,12

	Population	Fully vaccinated	At least one dose	Fully vaccinated over population %	At least one dose over population %	Unvaccinated population %
Vaccinations	2 432 734	1 142 642	1 410 992	46,97	58,00	42,00

Source – Government of Botswana COVID-19 Task Force. Date of extraction: 21 February 2022.

The tables above show general population statistics for COVID-19. Botswana has a low infection rate, case fatality rate and overall COVID-19 mortality rate. The additional mortality from COVID-19 was significant for the year totalling over P380 million and had a direct impact on the claims experience. The Government of Botswana, through the Ministry of Health, has indicated that the majority of the population has been vaccinated and is now offering the booster shot vaccines to those eligible. Botswana was among the first countries to reach the World Health Organisation-set target to vaccinate at least 40% of the eligible population by December 2021. The vaccines helped mitigate the great uncertainty on the trajectory of the disease with continuous mutation of the Coronavirus, and they have proven to be effective as evidenced by the low mortality since the vaccination programme was introduced.

Liquidity

Liquidity was under pressure during the year due to the significant increase in claims heightened by the COVID-19 pandemic and low annuity new business sales. The company utilised the bank overdraft facility in place and liquidated some assets to ensure that there is adequate liquidity to continue to pay claims. The liquidity pressure eased towards the end of the year but continues to be monitored closely by management.

29. EVENTS AFTER THE REPORTING PERIOD

29.1 Dividends declared

The directors have resolved to award a final dividend of 71 thebe (2020: 65 thebe) per share (net of tax).

There have been no other events, facts or circumstances of a material nature that have occurred subsequent to the reporting date which necessitate an adjustment to the disclosure in these annual financial statements or the notes thereto.

BIHL INTEGRATED ANNUAL REPORT 2021

06 SHAREHOLDER INFORMATION

BIHL respects its esteemed shareholders and keeps them well informed at all times.

BIHL INTEGRATED ANNUAL REPORT 2021

SHAREHOLDER ANALYSIS

Share analysis – ordinary shareholders

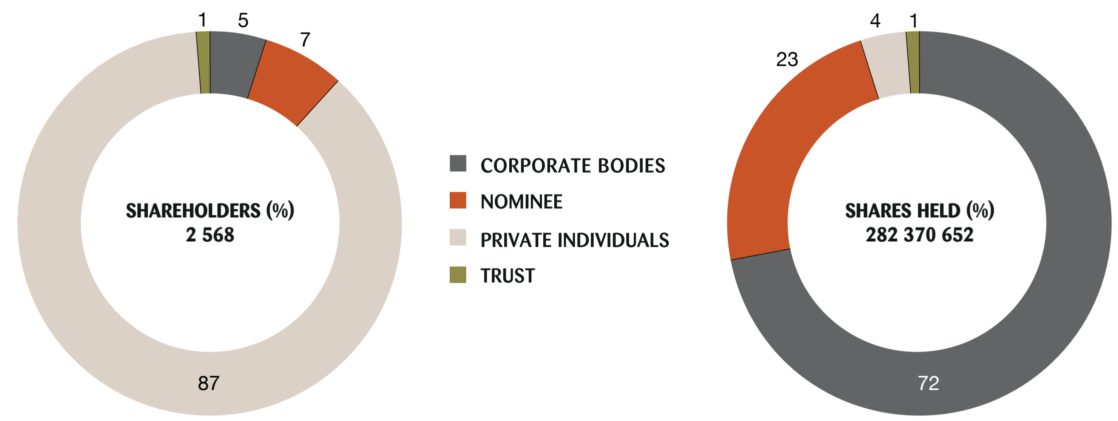
	Shareholders		Shares held	
	Number of holders	% of holders	Shares held	% of issued shares
1 to 5 000	2 057	80,10	1 879 833	0,7
5 001 to 10 000	166	6,46	1 100 779	0,4
10 001 to 50 000	212	8,26	4 393 943	1,6
50 001 to 100 000	38	1,48	2 524 496	0,9
100 001 to 500 000	69	2,69	14 512 605	5,1
500 001 to 1 000 000	9	0,35	5 962 879	2,1
Over 1 000 000	17	0,66	251 996 117	89,2
Total	**2 568**	**100,00**	**282 370 652**	**100,0**

Top 10 shareholders

	Shares held	% of issued shares
Scbn Proprietary Limited Sanlam Emerging Markets: Bw0000016225	116 388 211	41,22
African Life Assurance Company (Botswana) Proprietary Limited	48 603 380	17,21
Botswana Public Officers Pension Fund	41 076 964	14,55
FNB Botswana Nominees re: Bifm – Act Mem & Dp Eq	16 938 332	6,00
Motor Vehicle Accident Fund	10 835 140	3,84
Stanbic Nominees Botswana Re Bifm Plef	3 554 424	1,26
Stanbic Nominees Botswana Re Bifm Mlf	2 929 387	1,04
Debswana Pension Fund	2 699 163	0,96
Ninety-One-Debswana Pension Fund	2 197 401	0,78
Stanbic Nominees Botswana Re Morula Re DPF	2 190 842	0,78
Other	34 957 408	12,38
Total	**282 370 652**	**100,00**

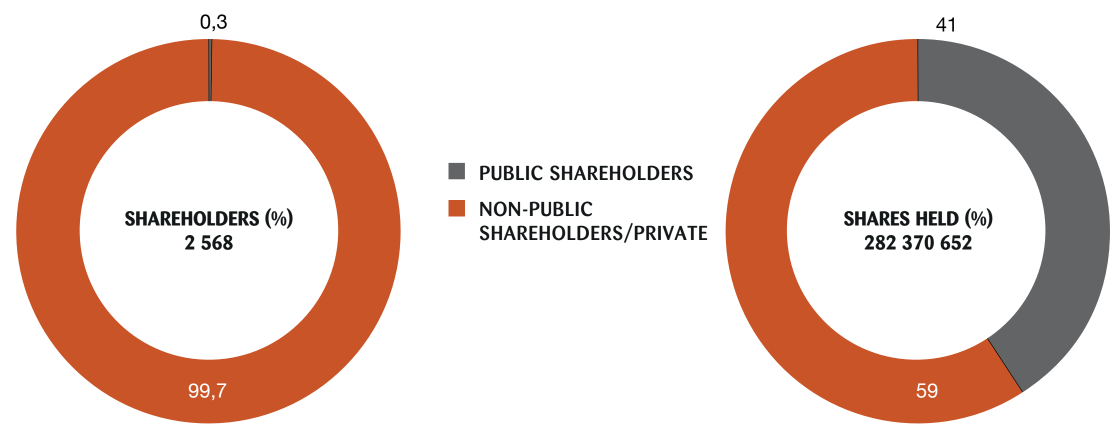
Category (i)

	Shareholders		Shares held	
	Number of holders	% of holders	Shares held	% of issued shares
Corporate bodies	120	5	203 486 658	72
Nominee	170	7	65 088 234	23
Private individuals	2 251	87	11 839 297	4
Trust	27	1	1 956 463	1
Total	**2 568**	**100**	**282 370 652**	**100**



Category (ii)

	Shareholders		Shares held	
	Number of holders	% of holders	Shares held	% of issued shares
Public shareholders	2 560	99,7	116 911 595	41
Non-public shareholders	8	0,3	165 459 057	59
Total	**2 568**	**100**	**282 370 652**	**100**



BIHL INTEGRATED ANNUAL REPORT 2021

SHAREHOLDERS' DIARY

Results announcement	
Announcement of 2021 financial results	9 March 2022
Announcement of 2022 interim results	1 September 2022
Annual report	
2021 integrated annual report available to shareholders	27 May 2022
Annual general meeting	24 June 2022

DIVIDEND DISTRIBUTION

Year-end dates	
Declaration of final dividend	2 March 2022
Ex-dividend date	8 April 2022
Record date	12 April 2022
Payment date	22 April 2022
Interim dates	
Declaration of interim dividend	17 August 2022
Ex-dividend date	7 October 2022
Record date	11 October 2022
Payment date	21 October 2022

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 December 2021

BIHL GROUP

BOTSWANA INSURANCE HOLDINGS LIMITED

Registration number: BW00000798601

Notice is hereby given that the 30th annual general meeting (AGM) of Botswana Insurance Holdings Limited (BIHL or the company) will be held at Avani Gaborone Hotel Conference Centre, Botswana on 30 June 2022 at 16:00 for the following business:

ORDINARY BUSINESS

1. To read the notice convening the meeting.

2. Ordinary resolution number 1: Presenting the BIHL annual financial statements

To present, consider and adopt the BIHL annual financial statements for the year ended 31 December 2021, that have been distributed to shareholders as required, including the consolidated audited financial statements for the company and its subsidiaries, as well as the auditor's and directors' reports.

3. Ordinary resolution number 2: Approval of dividends

To approve the dividends declared by the directors on 2 March 2022.

4. Ordinary resolution number 3: Re-election of directors

To re-elect directors in accordance with the provisions of the Constitution of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election:

a) Mr John Hinchliffe

b) Mr Chandrakant Chauhan

c) Mr Mahube Mpugwa

Ordinary resolution number 3.1: Re-election of Mr John Hinchliffe as a director

To re-elect Mr John Hinchliffe who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election.

Mr John Hinchliffe (66)

Independent non-executive director since 1 June 2010

Qualifications: BA (Econ) Honours degree from Manchester University; a Fellow of the Botswana Institute of Chartered Accountants (BICA); a Fellow of the Institute of Chartered Accountants in England and Wales

BIHL Group directorships: Chairman of Botswana Insurance Fund Management, Bifm Unit Trusts Proprietary Limited and independent review committee of BIHL

Major external positions, directorships or associations: DCDM Consulting Proprietary Limited; Nsenya Proprietary Limited; Portion 84 Mokolodi Sanctuary Proprietary Limited; Botswana Insurance Company Limited

Fields of expertise: Accounting; financial markets and investment; general business and risk management

The board recommends the re-election of this director.

Ordinary resolution number 3.2: Re-election of Mr Chandrakant Chauhan as a director

To re-elect Mr Chandrakant Chauhan who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election. The re-election is on condition that Mr Chauhan would serve as a director until 31 December 2022 whereupon he would resign from office.

Mr Chandrakant Chauhan (60)

Independent non-executive director since 20 April 2009

Qualifications: BAcc (Hons) from the University of Zimbabwe, ACA (England and Wales), ACA (BICA)

BIHL committee memberships: Audit and risk, independent review and nominations committees

BIHL Group directorship: Botswana Life Insurance Limited

Major external positions, directorships or associations: Managing director of Sefalana Holdings Company Limited

Fields of expertise: Accounting, general business and financial Management

The board recommends the re-election of this director.

Ordinary resolution number 3.3: Re-election of Mr Mahube Mpugwa as a director

To re-elect Mr Mahube Mpugwa who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election.

Mr Mahube Mpugwa (54)

Non-executive director since 1 June 2010

Qualifications: BA (Hons) from the University of Windsor; a certificate in Business Leadership; MBA (Strathclyde University's Graduate School of Business)

BIHL committee memberships: Investment and human resources committees

Major external positions, directorships or associations: Director of Master Timber Proprietary Limited; Colmar Proprietary Limited, Woolworths Botswana and Shumba Energy

Fields of expertise: General business and marketing

The board recommends the re-election of this director.

NOTICE OF ANNUAL GENERAL MEETING continued

For the year ended 31 December 2021

5. Ordinary resolution number 4

Ordinary resolution number 4.1: Approval of directors' remuneration

To note the total amount of non-executive directors' and executive directors' remuneration for the financial year ended 31 December 2021. Directors' remuneration is set out in the BIHL 2021 integrated annual report: executive directors on page 78 and non-executive directors on page 79 and is also included below for ease of reference.

Financial year 2021 directors' fees for approval

Name	Retainer	Board meeting	Audit and risk committee	HR committee	Subsidiary boards	Nominations committee	Other	Investment committee	Credit committee	Total
B Dambe-Groth	–	475 000	–	–	–	–	–	–	–	475 000
C Chauhan	65 000	115 764	126 404	–	100 000	68 250	–	–	–	475 418
J Hinchliffe	65 000	115 764	94 803	–	115 000	–	145 375	–	–	535 942
M Mpugwa	65 000	115 764	–	56 700	95 000	–	–	107 276	143 076	582 816
Lt General T Masire	65 000	96 470	–	–	–	–	–	–	–	161 470
A Cartwright	65 000	115 764	287 644	–	80 000	–	–	–	–	548 408
R Dommisse	65 000	115 764	126 404	56 700	95 000	–	–	–	–	458 868
N Suliaman	65 000	96 470	–	–	75 000	–	–	143 076	107 276	486 822
Vlok	65 000	115 764	–	–	80 000	–	–	–	–	260 764
P van Rooijen	–	–	126 404	–	80 000	–	–	–	–	206 404
K Maphage	–	–	–	61 500	80 000	–	–	–	–	141 500
Total	**520 000**	**1 362 524**	**761 659**	**174 900**	**800 000**	**68 250**	**145 375**	**250 352**	**250 352**	**4 33 412**

Ordinary resolution number 4.2: Approval of directors' fees for the ensuing year

The BIHL Group conducted a research exercise into directors' fees, the last review having been conducted in 2017. The exercise was to ensure up-to-date benchmarking and data-guided insight to inform how to structure directors' and board members' remuneration, particularly looking at non-executive directors. The work was done by a specialist consultant at PricewaterhouseCoopers using data from various entities operating within short-term insurance, life insurance and general insurance excluding banks. The comparator group comprised 24 companies which were selected based on their turnover, EBITDA and total assets.

The findings of the exercise concluded that BIHL board members were remunerated below the 25th percentile, the audit and risk committee members were remunerated at the 75th percentile while the HR committee members were being remunerated at the median market range. Below is a summary of the recommended fees.

Recommended BIHL directors' fees for the ensuing year

Board/committee		Current fee/ per sitting P	New fee/ per sitting P	% increase
BIHL board	Chairman[1]	475 000	498 750	5
	Member	19 294	20 645	7
	Retainer[2]	65 000	100 000	54
Audit and risk committee	Chairman	71 911	71 911	0
	Member	31 601	31 601	0
Human resources committee	Chairman	20 500	21 320	4
	Member	14 175	14 175	0
BIHL Trust	Chairman	10 500	13 650	30
	Member	4 410	6 174	40
Nominations committee	Chairman[1]	65 000	68 250	5
	Member	2 500/hour	2 800/hour	12
Independent review committee	Chairman	2 500/hour	2 800/hour	12
	Member	2 500/hour	2 800/hour	12
Ad hoc		2 500/hour	2 800/hour	12

[1] *All-inclusive fee.*
[2] *No ad hoc claims for directors on a retainer.*

6. Ordinary resolution number 5

To approve the remuneration of the auditor for the year ended 31 December 2021.

7. Ordinary resolution number 6: Reappointment of the auditor

To reappoint Ernst & Young, as nominated by the company's audit and risk committee, as the independent auditor of the company to hold office until the conclusion of the next AGM of the company.

Voting and proxies

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak at and vote in his/her stead. The proxy need not be a member of the company.
2. The instrument appointing such proxy must be deposited at the registered office of the company not less than 48 hours before the meeting.
3. The completion and lodging of this form of proxy will not preclude the relevant member from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

By order of the board

Haig Ndzinge
Company Secretary

A shareholder/s entitled to attend and vote at this AGM is/are entitled to appoint one or more proxies (who need not to be shareholders of the company), to attend, speak at and vote on behalf of the shareholder/s at the AGM.

BIHL INTEGRATED ANNUAL REPORT 2021

NOTES TO THE FORM OF PROXY

Receiving and adoption of the annual financial statements together with the reports of the statutory actuary and the auditor

The directors are required to present to members at the AGM the annual financial statements, incorporating the report of the Chief Financial Officer for the period ended 31 December 2021, together with the reports of the valuator and the auditor contained in this integrated annual report.

Election of directors

In terms of the company's Constitution, one-third of the directors are required to retire at each AGM and may offer themselves for re-election. The Constitution also provides that the appointment of any person as a director of the company requires confirmation by shareholders at the first AGM of the company after the appointment of such person as director.

Shareholders' calendar reporting

Financial year-end	31 December
Announcement of financial year-end 31 December 2021 results	9 March 2022
Integrated annual report sent on or about	27 May 2022
Annual general meeting	30 June 2022
Interim results published	1 September 2022

Dividends

2021 final dividend payment	22 April 2022

Notes to the form of proxy

1. A shareholder may insert the name of a proxy or names of two alternate proxies with or without deleting "the Chairman of the AGM"; such a deletion must be initialled by the shareholder. The person, whose name appears first on the form of proxy and has not been deleted, will be entitled to act as a proxy to the exclusion of those whose names appear below his/hers.
2. A shareholder's instructions to the proxy must be indicated by the insertion of a cross or a tick or the relevant number of votes exercisable by the shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the AGM as he/she deems fit in respect of the entire shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded, may not exceed the total of the votes exercisable by the shareholder or his/her proxy.
3. Completed forms must be lodged with or posted to the company's registered office, Fairgrounds Office Park Plot 50371, Gaborone, Botswana or PO Box 336, Gaborone, Botswana or faxed to +267 397 3657 for the attention of the Company Secretary, so as to be received by no later than 48 hours before the time appointed for the holding of the AGM (excluding Saturdays, Sundays or public holidays) or any adjournment thereof.
4. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
5. Any alteration made to or on this form of proxy must be initialled by the signatory/ies.
6. The Chairman of the AGM may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner which the shareholder concerned wishes to vote.
7. An instrument of proxy shall be valid for the AGM as well as any adjournment thereof, unless the contrary is stated thereon.
8. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the ordinary shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the company not less than one hour before the commencement of the AGM or adjourned AGM at which the proxy is to be used.
9. At a meeting of shareholders, a poll may be demanded by:
   (a) not less than five (5) shareholders having the right to vote at the meeting, or
   (b) a shareholder or shareholders representing not less than 10% of the total voting rights of all shareholders having the right to vote at the meeting, or
   (c) a shareholder or shareholders holding shares that confer a right to vote at the meeting and on which the aggregate amount paid up is not less than 10% of the total amount paid up on all shares that confer that right, or
   (d) the Chairman.

When a poll is taken, votes shall be counted according to votes attached to the shares of each shareholder present in person or by proxy and voting.

FORM OF PROXY

BIHL GROUP
BOTSWANA INSURANCE HOLDINGS LIMITED

Registration number: BW00000798601

To be completed by certificated shareholders with "own name" registration
For use at the AGM to be held at 16:00 on the 30 June 2022 Avani Gaborone Hotel Conference Centre, Botswana.

I/We ______________________________ being a shareholder/s of

Botswana Insurance Holdings Limited, holding ______________________ number of shares hereby appoint:

1. ______________________________ or failing him/her,
2. ______________________________ or failing him/her,
3. the Chairman of the AGM as my/our proxy to vote for me/us on my/our behalf at the AGM of the company to be held at the Avani Gaborone Hotel Conference Centre Botswana on 30 June 2022 at 16:00, and at any adjournment thereof for the purpose of voting:

	For	Against	Abstain
1. Ordinary resolution number 1: To receive, approve and adopt the annual financial statements for the year ended 31 December 2021			
2. Ordinary resolution number 2: To approve the dividends declared by the directors on 2 March 2022			
3. Ordinary resolution number 3: To re-elect directors in accordance with the provisions of the Constitution of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election:			
3.1. Mr John Hinchliffe			
3.2. Mr Chandrakant Chauhan			
3.3. Mr Mahube Mpugwa			
4. Ordinary resolution number 4:			
4.1. To note the total amount of non-executive directors' and executive directors' remuneration for the financial year ended 31 December 2021			
4.2. To approve the proposed non-executive directors' and executive director's remuneration			
5. Ordinary resolution number 5: To approve the remuneration of the auditor for the year ended 31 December 2021			
6. Ordinary resolution number 6: To appoint the auditor for the coming year to 31 December 2021			

Signed at ______________________ on the ______________ day of ________________ 2022

Signature______________________________

DEFINITIONS

Financial definitions

Basic earnings per share	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares
Claim	A demand to the insurer for indemnification for a loss incurred from an insured peril
Dividends per share (cents)	Total dividends paid to ordinary shareholders divided by the number of ordinary shares issued calculated in cents
Shares in issue	The number of ordinary shares in issue as listed by the BSE
Intermediary	A person who negotiates contracts of insurance or reinsurance with the insurer or reinsurer on behalf of the insured or reinsured
Net asset value	Equity attributable to equity holders of BIHL Limited
Reinsurance	A form of insurance cover for insurance companies where an insurance company transfers a portion of its risks to the reinsurer
Remuneration	Money that is paid or other financial compensation provided in exchange for an employee's services performed
Underwriting	The process of examining, accepting, or rejecting insurance risks, and classifying or segmenting those selected, to charge the proper premium for each

Subsidiaries and associates

African Life Financial Services	African Life Financial Services Limited
ALBOTS	African Life Assurance Company Botswana Proprietary Limited
BIC	Botswana Insurance Company Limited
Bifm	Botswana Insurance Fund Management Limited
BIHL	Botswana Insurance Holdings Limited
BIHL Trust	Botswana Insurance Holdings Trust
Botswana Life	Botswana Life Insurance Limited
FSG	Funeral Services Group
Khumo	Khumo Property Asset Management Company
LG	Legal Guard Proprietary Limited
Letshego/LHL	Letshego Holdings Limited
NICO	National Insurance Company Limited
KYS	Kgolo-Ya-Sechaba Investments Limited
PPB	Private Property Botswana Limited

Acronyms and abbreviations

AGM	Annual general meeting
AI	Artificial intelligence
AIDS	Acquired immunodeficiency syndrome
AIP	Annual improvements
AML/CFT and P	Anti-money laundering/combating financial terrorism and proliferation
AUM	Assets under management
BAOA	Botswana Accountancy Oversight Authority
BICA	Botswana Institute of Chartered Accountants
BOPEU	Botswana Public Employees Union
BSE	Botswana Stock Exchange
BWP	Botswana Pula, the functional currency of Botswana
CEE	Citizen economic empowerment
CEESOS	Citizen economic empowerment share option scheme
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CFO	Chief Financial Officer
CIU	Collective investment undertaking
CSI	Corporate social investment
CSP	Conditional share plan
CSR	Corporate social responsibility
DCF	Discounted cash flow
DPF	Discretionary participation features
ECL	Expected credit loss/es
EIR	Effective interest rate
ERM	Enterprise risk management
ESG	Environmental, social and governance
EVP	Employee value proposition
HIV	Human immunodeficiency virus
HR	Human resources
IAS	International Accounting Standards
IBNR	Claims incurred but not yet reported
IBOR	Interbank offered rate
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
<IR Framework>	International Integrated Reporting Framework
ISAs	International Standards on Auditing
IT	Information technology
King IV™	King IV Report on Corporate Governance for South Africa, 2016™
LGD	Loss given default
LTI	Long-term incentive
NBFIRA	Non-Bank Financial Institutions Regulatory Authority
OVC	Orphans and vulnerable children
PCT	Prescribed capital target
PD	Probability of default
PiT	Point in time

BIHL INTEGRATED ANNUAL REPORT 2021

DEFINITIONS continued

STI	Short-term incentive
TBO	The Broadcasters Organisation
TCFD	Task Force on Climate-related Financial Disclosures
Teledimo	Teledimo Proprietary Limited
TGP	Total guaranteed package
The board	The board of directors of BIHL
The year	The year ended December 2021
TI	Trans Industries Proprietary Limited
UNICEF	United Nations International Children's Emergency Fund
USD	United States Dollar
VAT	Value added tax

A glossary of insurance-specific terminology

Assumptions	Underlying variables and uncertainties, which are taken into account in determining values, which could be insurance contract liabilities or financial assets at fair value
Benefit experience variation	Difference between the expected benefit payout and the actual payout
Deferred revenue	Initial and other front-end fees for rendering future investment management services, which are deferred and recognised as revenue when the related services are rendered
DPF	A contractual right to receive, as a supplement to guaranteed benefits, additional benefits: • that are likely to be a significant portion of the total contractual benefits • whose amount or timing is contractually at the discretion of the issuer, and • that are contractually based on: – the performance of a specified pool of contracts or a specified type of contract – realised and/or unrealised investment returns on a specified pool of assets held by the insurer, or – the profit or loss of the company, fund or other entity that issues the contract
Embedded value	This is an estimate of the economic worth of a life insurance business. The measurement principles, however, do differ from the measurement principles under IFRS
IBNR	Claims incurred by the policyholder but not yet reported to the insurance company
IFRS 4	International financial reporting standard that regulates the accounting for insurance contracts.
Insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder
Investment contract	Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of non-financial variable that the variable is not specific to a party to the contract
Investment management services	Managing of investments for which a service fee will be charged
Liability adequacy test	Reassessment of the sufficiency of the insurance liability to cover future insurance obligations
Life insurance	Contract under which the term of insurance covers a period longer than 12 months e.g. whole life or term insurance
Premiums earned	Premiums earned are when premiums are payable by the policyholder
Premiums written	Premiums written are on acceptance of insurance contract by the policyholder
Reinsurance	Insurance risk is ceded to a reinsurer, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract
Unearned premiums	Reserve for premiums received for which the underlying risks have not yet expired. This reserve is released over the term of the contract as the underlying risk expires

CORPORATE INFORMATION

BOTSWANA INSURANCE HOLDINGS LIMITED

Incorporated in 1990 in Botswana

Company registration number: BW00000798601

REGISTERED OFFICE

Plot 66458, Block A
3rd Floor
Fairgrounds Office Park
Gaborone, Botswana
PO Box 336
Gaborone, Botswana
www.bihl.co.bw
Tel: +267 370 7400
Fax: +267 397 3705

TRANSFER SECRETARIES

PricewaterhouseCoopers Proprietary Limited
Plot 50371
Fairgrounds Office Park
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Haig Ndzinge

STATUTORY ACTUARY

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First National Bank Botswana Limited
Stanbic Bank Botswana Limited
Standard Chartered Bank Botswana Limited
Bank Gaborone Limited
First Capital Bank Botswana Limited
Bank of Baroda (Botswana) Limited
Access Bank Limited

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