INTEGRATED ANNUAL REPORT

BIHL GROUP

BOTSWANA INSURANCE HOLDINGS LIMITED

20

RESILIENCE / STABILITY / STRENGTH

ABOUT THIS REPORT

Reporting scope and boundary

This report includes material information that informs 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, providing a view of where we achieved our goals and where we can improve. 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.

This is Botswana Insurance Holdings Limited's (BIHL or the company) integrated annual report and covers our performance for the year ended 31 December 2020 and follows our report for the previous year published in May 2020.

In telling our story, 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.

Reporting principles and framework

In compiling the report, we were guided by international and Botswana reporting guidelines and best practices, the Botswana Stock Exchange (BSE) Listings Requirements, Botswana International Financial Reporting Standards (IFRS), Botswana Institute of Chartered Accountants (BICA) Financial Reporting Guides, the King IV on Corporate Governance™* for South Africa (King IV™) and the International Integrated Reporting Framework issued in December 2013, 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, see the annual financial statements on pages 109 to 223.

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.

We have identified our material issues as set out below:

- Impact of COVID-19;
- Innovation and digital transformation;
- Transitioning the business into an advisory-driven model and away from a product-driven business model; and
- Stakeholder's experience.

The COVID-19 pandemic had a material effect on the business. The impacts and our agile response are covered in detail on page 17.

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.

Forward-looking statements

This integrated annual report contains forward-looking statements that, unless otherwise indicated, reflect the company's expectations as at 31 December 2020. 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.

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.

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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 2020, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the period from 1 January 2020 to 31 December 2020 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 these consolidated annual financial statements.

Catherine Lesetedi
Group Chief Executive Officer (CEO)

Kudakwashe Mukushi
Group Chief Financial Officer (CFO)

Andrew Cartwright
Audit and risk committee Chairman

Assurance

To comply with the 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 223.

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

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**

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KEY ACHIEVEMENTS IN 2020

Revenue

- Net insurance premium income increased by **11%** to **P2,9 billion**
- Recurring premium income increased by **8%** to **P1,6 billion**
- Fee revenue increased by **11%** to **P109 million**
- Value of new business decreased by **18%** to **P129 million**

Assets under management

- Assets under management (AUM) increased by **4%** to **P30,3 billion**

Earnings

- Operating profit increased by **4%** to **P393 million**
- Core earnings increased by **4%** to **P426 million**
- Profit attributable to equity holders increased by **22%** to **P532 million**

Solvency

- The business is well capitalised; required capital for the group subsidiaries is covered **6,3 times** (2019: 7,1 times)

Embedded value

- Embedded value increased to **P4,78 billion** (2019: P4,65 billion)
- Return on group embedded value was **13%** (2019: 13%)

Dividends

- **P424 million** paid as dividends during the period (2019: P369 million)
- Final dividend proposed of **P184 million** net of tax (2019: P166,6 million net of tax)

GROUP
CHAIRMAN'S REPORT

Last year when we produced our integrated annual report the COVID-19 pandemic had just been announced, and now we have gone through a full-year financial cycle under various lockdowns, regulations and protocols due to the pandemic.

MRS BATSHO DAMBE-GROTH | BIHL Group: Chairman

It is evident that from a macroeconomic perspective, the pandemic has affected different businesses and areas of the economy both in Botswana and globally. Notably, however, the resilience of our group and quick response to the impact of the pandemic ensured a solid performance for the year despite the challenging conditions. Refer to our response to COVID-19 on page 17.

Our macroeconomic environment in light of COVID-19

From the declaration of COVID-19 as a pandemic by the World Health Organisation (WHO) in March 2020, governments and businesses needed to move fast to adapt to the challenging environment. Globally, governments implemented preventive measures ranging from total lockdowns and extreme social distancing to travel bans.

The human cost of the outbreak and its crippling impact on global supply chains resulted in a total capital market capitulation in March 2020. To curb the economic fallout, global policymakers responded with extraordinary monetary and fiscal measures that dwarfed the measures implemented during the global financial crisis. The policy measures, together with some progress achieved on the vaccine front and easing of restrictions in a handful of economies, helped the return of risk appetite and the strongest third quarter rally in equities since 2009. It was, however, evident that the global economic recovery would be a protracted one, continuing into 2021. Overall, financial markets closed the year on a strong note as a result of a positive United States presidential election outcome and further fiscal stimulus, Brexit deal finalisation, the European Union announcing large financial support packages and central banks affirming their commitment to maintaining quantitative easing measures.

In Botswana, the effects of the COVID-19 pandemic were severely felt in March 2020 with the rise in infections, prompting the Government of Botswana to pre-emptively close its borders. On 31 March 2020, His Excellency President Mokgweetsi EK Masisi declared a state of emergency and a national lockdown for 28 days. Non-essential businesses were ordered to shut down while essential services were scaled down to skeleton staff requiring movement permits. The Government extended the lockdown for another month to contain local infections and later in September extended the state of emergency for an additional six months. The economic fallout due to the lockdown has been significant on the mining, property and tourism sectors with the associated fall in employment levels and disposable income for households.

Botswana's economy contracted by 24% in Q2 2020 with the mining sector the hardest hit, contracting by 60,2% year-on-year. The local economy contracted by a further 6% over Q3 2020, a notable improvement given the post-lockdown pick-up in economic activity. In September, S&P Global affirmed Botswana's sovereign rating at BBB+ and changed the outlook from stable to negative citing a weaker fiscal outlook due to the impact of COVID-19 and weaker diamond exports.

The Bank of Botswana opted to cut the bank rate twice by 0,5%, in April and October, citing the adverse impact of the COVID-19 pandemic on the local economy. The bank hinted that inflation is expected to remain below the objective range of 3% to 6% until Q3 2021 and gross domestic product (GDP) is expected to decline by 8,9% in 2020, thus justifying a supportive tone from the Monetary Policy Committee. Inflation closed the year below the target range recording 2,2% in December 2020.

Contrasting a strong rally in international markets, local markets continued to face headwinds and sentiments remained negative as a new COVID-19 variant plagued the Southern African region. Local equities, on aggregate, remained in negative territory and shed 8,2% over the year. Banking stocks were the worst performers, retail and property sectors held well while non-bank financial stocks gained. Government bond yields fell earlier in the year and rose sharply in December with a marked increase in the Government borrowing in local currency. In 2020, the Botswana Pula lost 2,1% against the US Dollar, while it appreciated by 2,7% against the South African Rand.

Our performance

Our results as at 30 June 2020 were below expectation but the business recovered well in the second half of the year resulting in exceptional financial results for the year as a whole, despite a difficult operating environment. This shows that our diversification strategy of introducing new business lines and expanding our geographical footprint has been working and has aided us in being resilient against the current economic environment.

Our business strategy has included Botswana Life Insurance Limited (BLIL) and Botswana Insurance Fund Limited (Bifm), along with our associates. Funeral Services Group (FSG) had exceptional results this year, as did Nico Holdings PLC and Letshego Holdings Limited (Letshego). Through collaborative efforts with associates, particularly FSG and Nico Malawi PLC, the group has been able to assist with portable practices, ranging from risk management and governance, product development and business strategy contributing to the success of these associates.

One of BIHL's strengths is the expertise to know when to let go, and when to adapt in order to protect the business. As a result of our diversification strategy, we, as a company, are able to be resilient against shocks including one of the greatest operational challenges being the COVID-19 pandemic.

We do not know what 2021 or the year after will bring but, as a business, we believe in "strength in numbers". For me strength in numbers does not only reflect our financial numbers, but most importantly the strength and resilience of our employees, whose resilience is shining through our results.

Botswana Life felt the headwinds of the pandemic with reduced levels of new business as a result of various lockdowns which impacted our face-to-face selling model especially on the retail lines. Despite this, Botswana Life overall was resilient with double-digit growth of net premium income, resilient file size and good growth of corporate scheme income. The corporate business had a phenomenal 2020, despite the impact of COVID-19, showing double-digit growth on all major group products, namely Group Credit Life, Group Funeral and Group Life Assurance. This was supported by our ability to pay out claims and our long-term partnerships.

Bifm was impacted less so by the pandemic and the good performance is attributed to an improved AUM position compared to the prior year for the Botswana business following the acquisition of new mandates and retention of existing ones. Bifm also benefited from disciplined cost management. These two factors worked together to ensure much better profit performance compared to the prior year. Our AUM have grown over the years and currently stand at P30,3 billion.

This has been another good year with dividends higher than last year and the board approved a final dividend of P184 million net of tax. We are well above the statutory requirement of capital cover with a ratio of 6,3 times representing very solid capitalisation levels. This number indicates an ability to keep our promises that we have made to our clients with over P1,6 billion being paid out in benefits and claims despite tough economic conditions.

COVID-19 has changed the business landscape by presenting new challenges as well as the opportunity to accelerate our digitalisation strategy in order to work more effectively and secure new business. With the various lockdowns, most companies have had to adjust the way they work. We, at BIHL, spent significant time and investment on establishing our new way of work. In order to adopt this new model of remote work, we ensured everyone had the necessary equipment in order to do so.

A hybrid model is still, however, necessary as working from home will not work for all aspects of the business, specifically for the retail business which will require office space for occasional face to face interaction with clients.

The board

Our board has a broad base of expertise which allows it to give effective strategic guidance without interfering at an operational level. I trust implicitly in the main board and all committees and believe that all actions are taken with the best interest of the company in mind.

We have a strong relationship with our stakeholders including regulators.

Sanlam is a good shareholder who provides technical support and an effective model that puts its trust in the appointment of strong local directors.

BIHL takes board succession very seriously. The scarcity of skills is further constrained by regulations which restrict directors to serving on only one company board in the financial sector, making it even harder to identify talented board members. It is with this in mind that subsidiary boards are continuously refreshed with new members. We were fortunate to identify and introduce new members for the various boards and we believe this will go a long way to strengthening the board.

Looking ahead

We expect the impact of the pandemic to affect the economy for some time. Until vaccines have been rolled out, and even then, the aftermath of the pandemic will continue to disrupt the economy and general business operations.

Given some of our experiences, it has become even more urgent to accelerate our digitalisation process, especially to empower our intermediaries who work predominantly in retail sales. While Botswana has one of the highest cell phone penetration rates, the same cannot be said for internet usage, and so our approach is cognisant of this challenge hence the endeavour to provide multiple channels for effective engagement with our clients.

We anticipate economic activity to be subdued going into 2021 as well as an increase in claims as a result of higher COVID-19 mortality, this is expected to have a negative impact on our results for the 2021 financial year.

In March 2021, after our reporting period, the President of the Republic of Botswana extended the state of emergency, which prohibits retrenchments during this period. This has been useful for lower salaried positions but not necessarily for higher salaried positions. The state of emergency has, in some regards, created a false sense of comfort because after it ends we anticipate a lot of retrenchments in the market, which will mean that people have even lower disposable income for products such as insurance. As a result, a large education drive is part of our business strategy to help people understand that insurance is not a luxury but a necessity particularly during periods of crisis.

Appreciation

I would like to thank all of our board members for their unwavering dedication and commitment to ESG at BIHL. I would like to further extend my appreciation to all managers at BIHL who have supported and navigated their teams through the pandemic.

I also thank all employees. Our people are crucial to our value proposition and without them we are not a business. We conducted an annual employee survey which revealed that levels of anxiety within the company have increased from the previous survey due to COVID-19, and we continue to provide psycho-social support to help our employees navigate these challenging times.

Batsho Dambe-Groth
BIHL Group Chairman

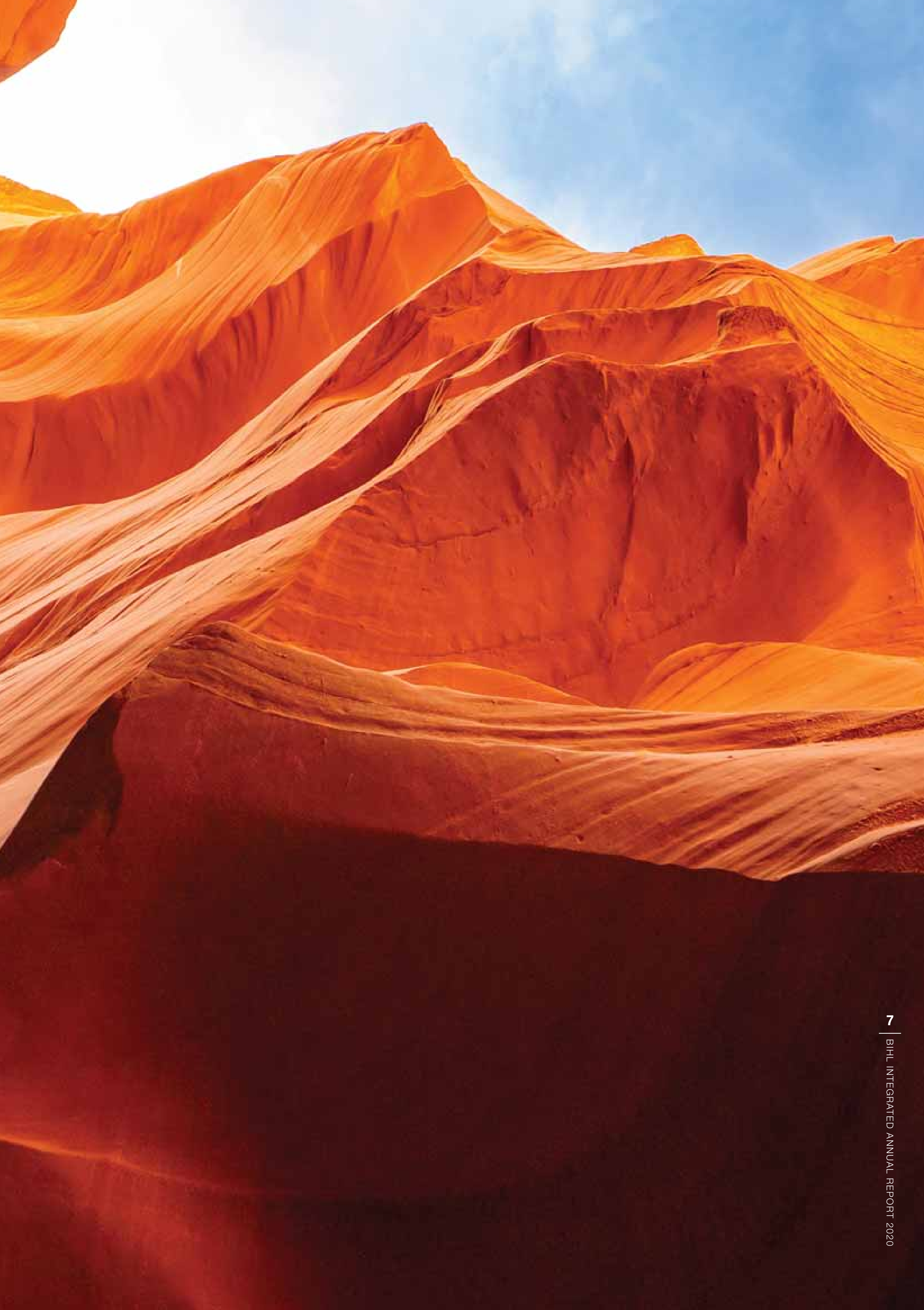
AUM have grown over the years and currently stand at
P30,3 billion

Share price as at 31 December 2020
P17,50

Embedded value per share
P16,93

01

BIHL IN A SNAPSHOT



BIHL AT A GLANCE

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

BIHL GROUP

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

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

Botswana Life Insurance Limited

Botswana's leading life insurer with a market share estimated at over 69%. Botswana Life administers more than 300 000 policies and underwrites over P1,6 billion in recurring premium income.

Botswana Insurance Fund Management Limited

A pioneer in asset management managing in excess of P30,3 billion in assets across equity, fixed income, real estate, liquidity and alternative investments.

BIHL further holds a stake in five associate companies: Letshego Holdings Limited, Botswana Insurance Company Limited, Funeral Services Group, Nico Holdings PLC and AFLife Holdings Zambia.

Group brands

BIHL GROUP

Bifm

Botswana Life

BIC
BOTSWANA
INSURANCE COMPANY

Group structure

BIHL GROUP

100% owned subsidiaries

Botswana Life

Bifm

BIHL top shareholders

Sanlam	58,43%
Botswana Public Officers Pension Fund	18,42%
Motor Vehicle Assurance Fund	3,80%
Other	19,40%

Associates

Letshego	28,05%
BIC	50,00%
FSG	37,59%
NICO	25,10%
AFLIFE	49,00%

Footprint


Ghana
Nigeria
Uganda
Kenya
Rwanda
Tanzania
Malawi
Zambia
Mozambique
Zimbabwe
Namibia
Botswana
Eswatini
Lesotho
South Africa
BIHL Group
Letshego Holdings Limited
BIC
FSG
Nico Holdings PLC
AFlife Holdings Zambia

OUR MILESTONES

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 BLIL 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

2009
- Completed development of the new SADC headquarters

2008
- Launched Bifm's 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

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

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 BLIL and Botswana General Insurance Limited
- Listed on BSE

1975
- Company established

DIRECTORATE

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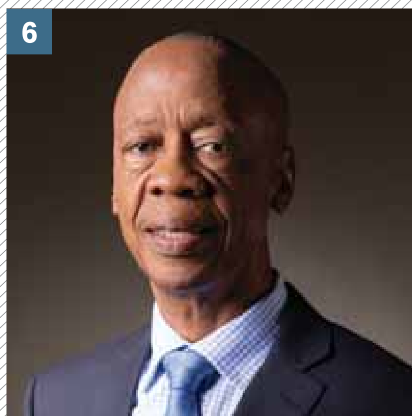
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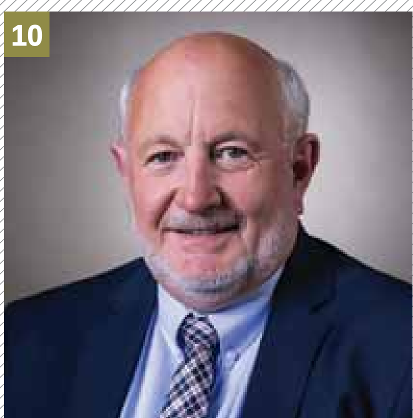

Legend

Executive	(red bar)	Audit and risk committee	■	Human resources committee	⬟
Independent non-executive	(blue bar)	Investment committee	●	Independent review committee	✱
Non-executive	(dark bar)	Nominations committee	▲		

1 Batsho Dambe-Groth (55) ▲ ⬟

Board Chairman – BIHL Group

Motswana

BSc (Hons) Occupational Psychology (University of Wales Institute of Science and Technology), Fellow (USA Fulbright Humphrey Programme), Certified Global Remuneration Professional (World at Work compensation organisation, USA)

Skills brought to BIHL: Board experience, consulting on human resources and business solutions.

2 Catherine Lesetedi (54)

Group CEO

Motswana

BA in Statistics and Demography (University of Botswana), Management Development Programme (Graduate School of Business at the University of Cape Town), professional qualifications in Advanced Insurance Practice, Diploma in Insurance Studies (University of South Africa), Sanlam Executive Leadership Programme (Gordon Institute of Business Science), Associate of the Insurance Institute of South Africa

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

3 Kudakwashe Mukushi (45)

Group CFO

Zimbabwean

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.

4 Chandra Chauhan (58) ■ ▲ ✱

Board Chairman – BLIL

Nominations committee Chairman

Motswana

B Acc (Hons) (University of Zimbabwe), ACA (England & Wales) and ACA (Botswana)

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

5 John Hinchliffe (64) ■ ✱

Board Chairman – Bifm

Independent review committee Chairman

British

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

Skills brought to BIHL: Board experience, consulting and finance.

Refer to page 236 to 238 for detailed CVs of directors.

6 Lieutenant General Tebogo Carter Masire (65)

Board member

Motswana

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

Skills brought to BIHL: Board experience and leadership.

7 Mahube Chilisana Mpugwa (53) ● ⬟

Board member – Bifm

Motswana

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

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

8 Andrew Willis Cartwright (62) ■

Board member – Botswana Life

Audit and risk committee Chairman

South African

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

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

9 Nigel Suliaman (54) ●

Bifm Board member, Bifm Unit Trusts Board member and investment committee Chairman

South African

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

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

10 Kobus Vlok (62)

Board member – Botswana Life

South African

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.

MANAGEMENT TEAM

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1 **Catherine Lesetedi** (54)
Group CEO
Motswana

BA in Statistics and Demography (University of Botswana), Management Development Programme (Graduate School of Business at the University of Cape Town), professional qualifications in Advanced Insurance Practice, Diploma in Insurance Studies (University of South Africa), Sanlam Executive Leadership Programme (Gordon Institute of Business Science), Associate (Institute of Insurance, South Africa)

2 **Kudakwashe Mukushi** (45)
Group CFO
Zimbabwean

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

3 **Ronald Samuels** (52)
CEO, BLIL
South African

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

4 **Neo Bogatsu** (47)
CEO, Bifm
Motswana

B.Com (Accounting) (University of Botswana), MBA (University Of Chicago Booth School Of Business), Fellow (FCCA), Fellow (BICA)

5 **Thomas Masifhi** (55)
Group Head of Business Development and Stakeholder Management
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)

OUR RESPONSE TO COVID-19

COVID-19 has had an extraordinary impact on almost every country in the world leading to the WHO declaring it a pandemic in March 2020. Governments and monetary authorities around the world responded swiftly with varied measures to try and combat the impact of COVID-19 on public health and its unavoidable impact on economic growth. These events saw a significant increase in market volatility with stock markets across the globe losing considerable value.

Countries started imposing measures from travel bans to lockdowns to help curb the rising infection numbers with the Government of Botswana declaring a state of emergency, instituting a lockdown and closing borders as a means to curb the spread of the virus.

The COVID-19 pandemic has had a severe effect on the economy in Botswana and the Government announced a P2 billion relief package and several measures to relieve businesses impacted by the virus.

BIHL Group's response

The group immediately put a pandemic plan in place which is primarily focused on:

- Compliance with regulations on the movement of people
- Emphasis on personal hygiene
- Employee distancing techniques in the work environment
- Limitations around international and domestic travel
- Maximum utilisation of the capacity to work from home
- Self-isolation where staff have travelled or might have been exposed to the virus
- Continuous communication to staff, clients and other stakeholders
- Heightened risk management
- Liquidity management improvements

The BIHL Group's operations were declared essential services and the group continued to operate on a limited staff basis, with only core staff on site.

The group also considered and took a stance that it will be accepting COVID-19-related claims.

The BIHL Group contributed P4,5 million towards the support of the Government's efforts in managing the spread of COVID-19. The funds were channelled to the Ministry of Health and Wellness, specifically for personal protective equipment (PPE) for health and emergency services workers and to aid in the fight against the pandemic.

BIHL continued its prudent reserving approach and capital management philosophy as well as appropriate risk management processes which, coupled with a well-capitalised business and the diversification strategy, ensured the group's resilience.

Customers and partners

Our response for customers and partners included:

- Premium holiday dispensation for Botswana Life clients;
- Premium discounts for BIC clients;
- Financial assistance to distribution partners to the value of P11,5 million; and
- 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 as well as customers and the following steps were introduced:

- Hybrid remote working policy implemented and increased spending to equip employees to work from home;
- Procurement of PPE for employees working from the office;
- Additional health and safety protocols introduced;
- Psychosocial support provided to employees;
- Provided Workplace by Facebook platform for employees to interact with each other;
- Employee survey to understand employee morale and the impact of COVID-19; and
- Provision of sanitisers, masks and checklist posters as reminders of core non-negotiables as well as temperature checks for those in the office.

Refer to the BIHL Group CEO's report on page 38 and our people on page 68 for more detail.

Communicating in a crisis

Communication is a key factor during a crisis and we paid a lot of attention to it throughout 2020. BIHL ensured continuous, timely and transparent communication with all stakeholders.

Investors: X-News updates as well as virtual meetings and presentations. We paid particular attention to updating investors on specific impacts and implications in the Botswana market to ensure they were are well informed

Employees: Awareness campaigns and WhatsApp group to keep employees abreast of the company's response to the pandemic, job security, work from home policies, skills development opportunities as well as its performance

Clients: Virtual discussions on digital product offerings and sales

Communities: Refer to page 70 for the corporate social responsibility (CSR) initiatives run during the year

Industry: Actively participated to the Government's COVID-19 Relief Fund

Tenants (Khumo): One-on-one engagement and negotiations of discounts and payment holidays

The COVID-19 pandemic has had a severe effect on the economy in Botswana and the Government announced a

P2 billion

relief package and several measures to relieve businesses impacted by the virus.

OUR MARKET AND TRENDS

Premium growth in the life insurance sector segment expected to average

4,8%

per annum between 2021 and 2024

Non-life insurance market in Botswana set to grow at

3,1%

The Botswana insurance market is dominated by the life insurance sector. This sector is larger than the non-life insurance sector accounting for 75% and 25% of the market, respectively, in 2018. In the insurance sector, Botswana has one of the more developed life sectors in sub-Saharan Africa and innovation, especially in the life segment, is improving accessibility.

Overall, written insurance premiums in Botswana remained relatively steady at P5,4 billion for two consecutive years in 2018 and 2019 falling short of projected growth of 7,7%. Short-term growth in Botswana's insurance sector came to a halt in 2020 due to the ongoing COVID-19 pandemic. The life insurance sector contracted for the second consecutive year. Nonetheless, premium growth in the life sector is expected to average 4,8% per annum between 2021 and 2024.

The life insurance market in Botswana is set to grow faster than non-life business and will represent 82% of total gross written premiums by 2022. The non-life insurance segment in Botswana is considerably smaller than its life counterpart and is expected to account for merely 23,0% of total written insurance premiums by 2024. This will be driven by falling policy prices in the motor vehicle segment and low single-digit growth in the property segment, both of which are the largest non-life subsegments; together accounting for 63,6% of total non-life premiums in 2024.

The COVID-19 crisis is still ongoing and will continue to affect the population's disposable household incomes and is therefore expected to weigh on demand for life and non-life insurance products in the short term. The non-life sector is more heavily exposed than the life sector as motor and property insurance sectors are heavily procyclical. Unforeseen slumps in the price of key exports and GDP growth may affect segment growth.

Growth opportunities in varied aspects such as being innovative in distribution strategies, potential growth in financial inclusion and continued education of non-users will need to be considered. A lack of insurable corporate or institutional risks and potential of widespread poverty may reduce demand for a range of insurance and investment products.

Trends in our market

Digital transformation

The financial services industry is increasingly defined by an aggressive focus on digitally-based business models to unlock new value. New technologies are being adopted and incorporated into the fabric of business to boost operational efficiencies, enhance client experience and minimise human error. Technological advancements have created new opportunities for corporate partnerships to build out their digital experience. The rise of such partnerships has accelerated data-driven growth as artificial intelligence and data analytics are employed to inform decisions related to product development, distribution channel development and cost reduction.

BIHL's digital transformation strategy is addressing this growing trend (refer to page 27 for further detail on our digital transformation strategy).

Consumer loyalty

The increasing competition and macroeconomic conditions can potentially result in consumers restructuring or cancelling some of the products on offer within the financial services industry. This has required companies to consider clients as more than customers but rather partners with shared objectives which create opportunities for mutually beneficial value exchanges.

As such, all client interactions may require companies to take active and intentional steps to create relationships that will foster client delight and therefore loyalty. The development of robust partnerships allows not only for client retention but also eases the cost of acquisition by creating opportunities for up- and cross-selling.

People management in insurance

The technological advancements previously highlighted have an impact on the nature of work, and subsequently the operation and business models, a reflection of the rapidly changing environment. As more business processes are conducted online, employers have access to the resources required to monitor workers' productivity and efficiency regardless of where they choose to operate.

The use of surveys has demonstrated that only 28% of financial services respondents expect to stay with their current employer for the next five years, with only 4% of millennials expressing a desire to work in the insurance sector. As such, attracting and retaining will be of great significance in the years to come, with millennials placing a premium on flexibility and positive working environments. There is increasingly pressure on the financial services industry to regularly review polices to align with workers' changing needs. (Refer to page 68 for our approach to people management.)

Sources

Deloitte & Touche, Fitch Solutions, Kognitiv, Non-Bank Financial Regulatory Authority, WNS Holdings

02

OUR BUSINESS AND HOW WE CREATE VALUE

BUSINESS MODEL

The business model sets out how we create, and preserve value. Refer to pages 26 to 28 for detail on how we realise our value creation through our strategy. The board has assessed the six capitals and deemed manufacturing capital not to apply to the group and therefore only addresses the five capitals as set out below.

Business activities

Financial capital

Investment funding

Debt management

Cash flow and working capital management

Intellectual capital

Skilled workforce with knowledge base

Recognised brands

Systems and procedures

Digital transformation strategy

Human capital

Depth of skills and experience

Training and development

Social and relationship capital

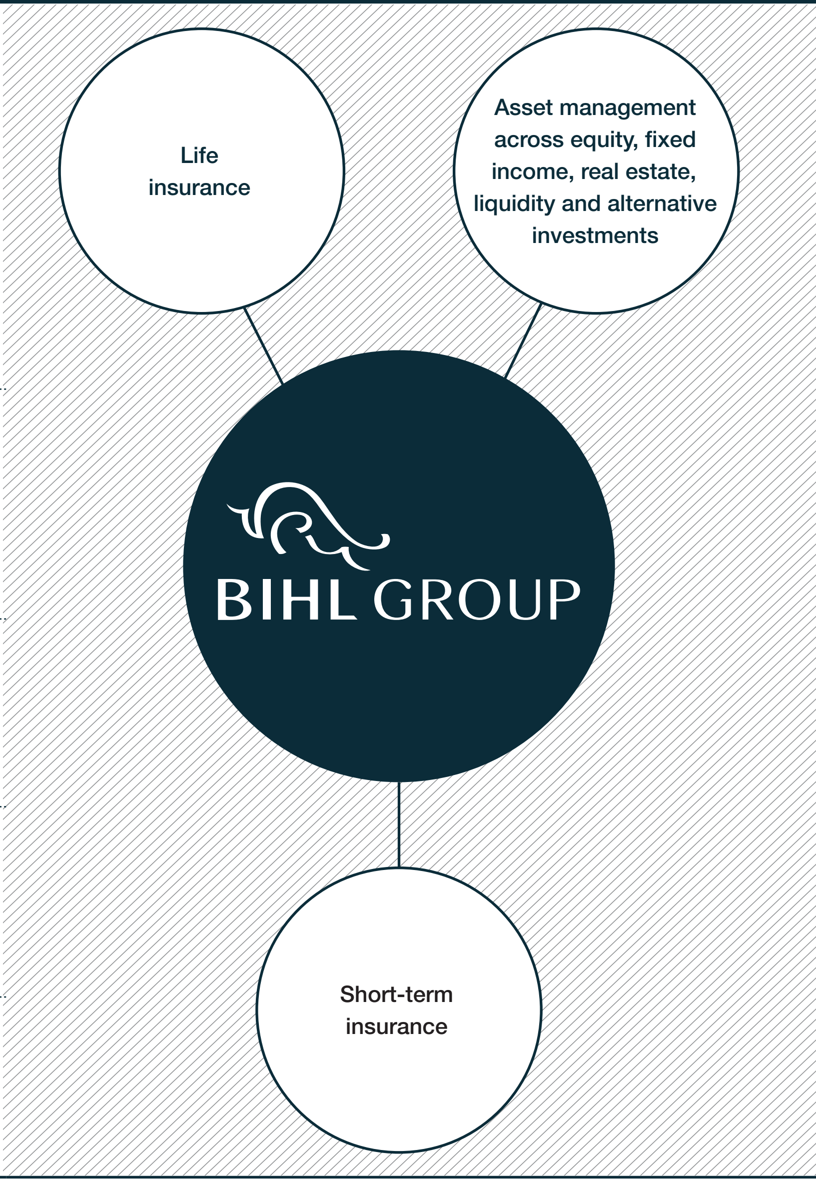
Engagement with stakeholders

Client-centric – delight customers

Corporate social investment (CSI) programme

Natural capital

Responsible use of resources



Outputs	Outcomes
Well-capitalised operation – required capital for the group subsidiaries is covered 6,3 times	Delivering sustainable earnings and distribution growth Embedded value of **P4,78 billion** Return on group embedded value of **13%** Final dividend of **P184 million** net of tax AUM of **P30,3 billion** Net insurance premium income of **P2,9 billion** Recurring premium income of **P1,6 billion** Fee revenue of **P109 million** Borrowings of **P127,6 million**
Life insurance and investment products for a broad range of society	**Six** life policies **Three** investment products **Five** funeral products **One** retirement annuity product
Skilled workforce	**341** (approved complement) jobs created **329** employees (excluding fixed-term contracts) **342** employees (including fixed-term contracts) **P3,9 million** training spend
CSI 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
Responsible use of natural resources Low-impact industry CSI focus on conservation of environment	Refer to page 69 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. The strategy is focused on achieving client-centricity, revenue growth and delivering shareholder value while retaining our competitive position.

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.

The resilience and robustness of this diversity strategy was demonstrated in the past year with the unprecedented impact of COVID-19 on economies. Our ability to adapt and, in part, flourish is testament to this strategy.

At the heart of our strategy is **strengthening the core**. We will further our expansion opportunities, including outside Botswana, as well as bolt-on products. In addition, we are committed to executing well in the markets in which we currently operate by doing things better and by doing things differently. 2020 was about how we do things, and doing things smarter and managing risk to adapt to the challenging environment.

Strategic pillar	Progress in FY20	Targets for FY21
Client-centricity	• Focus on improving advice from agencies and brokers • Improved training academy content to ensure fit for purpose brokers • Launched new products in Botswana Life and Bifm • Launched digital platforms for Botswana Life • Automated Bifm back office enabling more efficient preparation of client reports • Implemented virtual report for Bifm • Premium holidays for clients	• Focus on segmented approach to selling; right product right solution • Rapid roll-out 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
Innovation and transformation	• Appointed Deloitte Botswana to facilitate the development of our innovation roadmap • Executive team developed ambitions across the three horizons (Refer to page 27) • Examined optimal leadership style for a digital and innovative organisation • Formulated missions to drive innovation and transformation • Developed innovation and implementation framework • Examined and adopted mission-led teams as a vehicle to execute the digital transformation	• Kick-off of the roadmap implementation • Five missions prioritised • See 'A focus on our innovation and transformation pillar' on page 27
Employee value proposition (EVP)	• Well-being of staff ensured during COVID-19 with work from home policies and psychosocial support • Focused on succession and engaged Trending Talent to assist • Mapped out critical roles • Employee training • Employee engagement through virtual townhalls • Employee surveys	• 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
Collaboration	• Leveraged new regulation to from direct relationships with institutional and affinity clients • Focused on strengthening partnerships through closer collaboration on product development and improvement in customer service processes • Expanded distribution capabilities	• Introduce data analytics to assist with better insights that inform product development

A focus on our innovation and transformation pillar

In developing our five-year strategy in 2018, we recognised that innovation and agility were values we needed to intentionally and purposefully 'live' as a group. On reflection, we felt that while we have always had innovation as a value, we had not been deliberately innovating and where we did, we did not execute well. Hence our intentional approach to innovation and transformation which we committed to by establishing an innovation and transformation function, through which we have seen significant traction of our projects.

The world is evolving rapidly, products and services are going digital and customer expectations and demands are not only changing, but increasing. As a group, we need to innovate intentionally and make our products and services appealing and relevant to the customer of today. This means not only adapting products to the customer's new and changing needs, but also how we offer those products and services.

We need to **innovate intentionally and transform with the new digital world.**

We have now 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.

We have engaged Deloitte Consulting to partner with us on this journey, as a technical partner, providing both advisory and implementation capabilities to the group. While COVID-19 initially delayed the development of our innovation roadmap, we were able to commence in July 2020. We embarked on a series of workshops to define what we wanted the BIHL Group of the future to look like and we analysed trends in both the insurance and asset management space in Botswana and globally. 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**

In order to develop the innovation roadmap, we underwent a leadership activation process which outlined the following:

- Learning how to lead ourselves in a digital world (fast and agile);
- How, as a leader, to lead others in this digital world; and
- How to activate a digital transformation strategy, implement and monitor, articulating the 'why' and ensuring buy-in.

During the roadmap development, we identified a number of insights which aided in defining our 10 missions:

- Areas requiring improvement;
- Gaining a better understanding of our customer by using customer data which we are currently not analysing nor leveraging;
- Requiring an ability to communicate with our customers in their preferred communication channel and to distribute our products and services in line with their preference;
- Improving synergies between subsidiaries to enable customer information sharing;
- Ability to 'work as a team' and present customers with a full suite of products across the group;
- Upskilled and future-fit employees; and
- Acquire future-proof skills to run paperless and contactless processes.

We have set out a roadmap of 10 missions, each with assigned executives and team members. The first five missions have been identified as the priority missions and we expect to address these missions over the next 18 months.

Five prioritised missions

Digital and innovation hub – a centralised agile capability establishing mission teams to drive and monitor this transformation. Cross-functional and proactively looking at new offerings and markets and able to scale up fast while demonstrating the highest customer experience, remaining competitive and regaining market share. Focus remains on providing economic value to shareholders and policyholders.

Agility – drive agile transformation across the BIHL Group by reconfiguring the operating model to drive group synergies through a shared services framework for digital, innovation and customer services.

Everest – a mission to lay the architectural foundations for innovation across all three horizons through migrating systems into the cloud, unifying the customer relationship management (CRM) and creating a unified, omnichannel experience for customers of all BIHL subsidiaries.

Pioneer – enabling BIHL's innovation journey by defining and driving a culture that supports pioneering, creativity and agile ways of work. It will help BIHL shift from a 'guardian' culture (stable and slow) to a 'pioneer' culture (agile and fast) that enables first-mover advantage in the market.

Strategic partnerships – establishing a partnership excellence capability and governance framework that sources and secures fit for purpose partnerships with the right institutions to ensure BIHL remains sustainable (through innovation) as well as improves service delivery and quality to its current and future customers.

RISK MANAGEMENT

The group's key risk management objective is to embed an effective group-wide risk management culture.

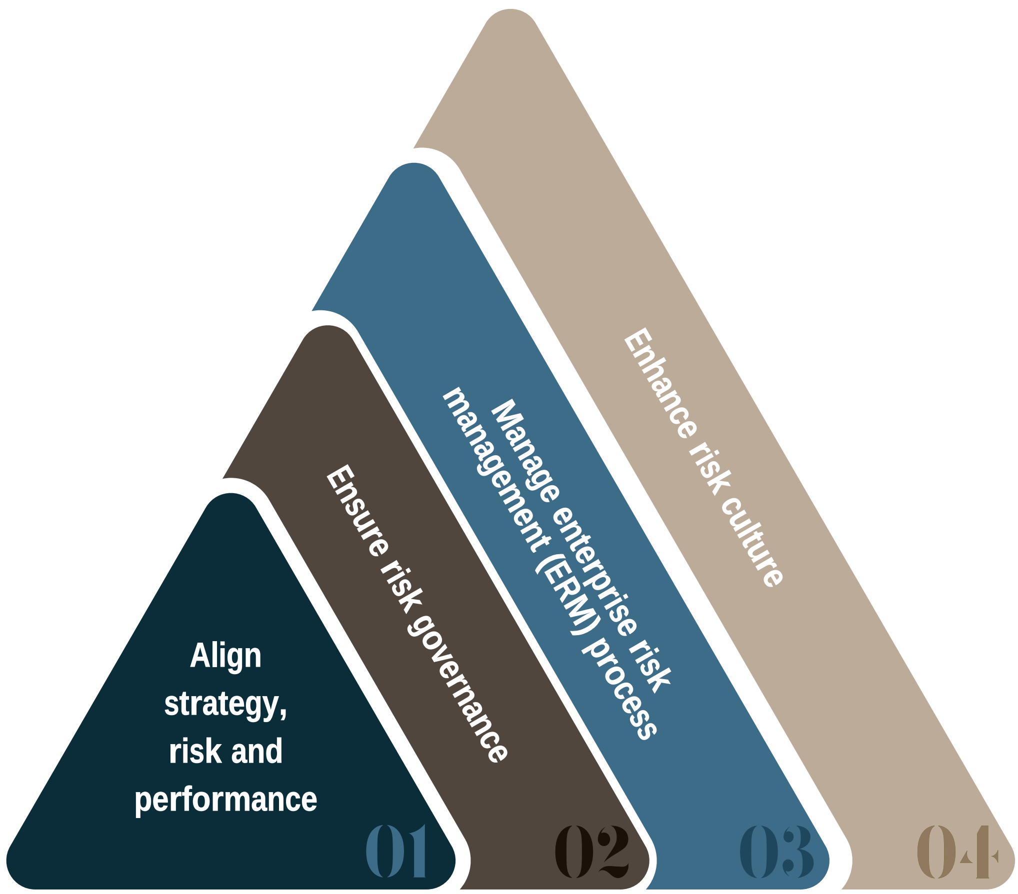
The board oversees risk management through the audit and risk committee and the group operates within a decentralised business model environment. In terms of this philosophy, the board sets the risk management framework for subsidiaries within the group. The individual businesses take responsibility for all operational and risk-related matters at a business level within limits set by risk management policies and frameworks as well as risk appetites.

During the year, the risk assurance framework was reviewed and approved by the board in November 2020. 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 BIHL Group strategic planning process involves the identification of key risks that may hinder achievement of strategic objectives or present opportunities that can lead to the attainment of objectives if well managed. Management's approach is to put in place the appropriate mitigations to ensure the identified risks do not hinder the attainment of strategic objectives.

The Gartner risk maturity self-assessment model was adopted in 2019 as part of the new risk management framework roll-out to measure the risk maturity levels of each entity within the cluster. The Gartner score enables BIHL to improve functional performance by assessing performance across a broad set of functional activities. The diagnostic measures two primary dimensions which are maturity and importance. The model has four functional objectives that are used to measure an organisation's risk management maturity.

Four functional objectives



Risk profile

The group is exposed to the following type of risks:

Risk categories (primary)	Risk types (secondary) and description
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. Operational risk includes:** **Information and technology risk:** the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of critical information.
	Going concern/business continuity risk: the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future.
	Legal risk: the risk that the group's operations or its condition are disrupted or adversely affected by legal proceedings against it, adverse judgements from courts, contracts that turn out to be unenforceable or contractual obligations which have not been provided for.
	Compliance risk: the risk of not complying with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct, investment management mandates, as well as the failure to uphold the group's core values and Code of Ethical Conduct.
	Human resources risk: the risk that the group does not have access to appropriate skills and staff to operate and effectively manage other operational risk.
	Fraud risk: the risk of financial crime and unlawful conduct impacting on the group. It includes both internal and external fraud.
	Taxation risk: the risk of financial loss due to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in return on group equity value or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits.
	Regulatory risk: the risk that unanticipated new Acts or regulations will result in the need to change business practices that may lead to financial loss.
	Process risk: the risk of loss as a result of failed or inadequate internal processes.
	Project risk: the risks that are inherent in major projects.
Reputational risk	**The risk that adverse publicity regarding the group's business practices and associations, whether accurate or not, will cause a loss of confidence in the integrity of the institution.**
Strategic risk	**The risk that the group's strategy is inappropriate or that the group is unable to implement its strategy.**
Market risk	**The risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes:** **Equity risk:** the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices.
	Interest rate risk: the risk that the value of an unmatched financial instrument will fluctuate as a result of changes in interest rates and the risk that mismatch losses will be incurred in respect of a matched asset/liability position following changes in interest rates.
	Currency risk: the risk that the Pula value of a financial instrument or liability will fluctuate owing to changes in foreign exchange rates.
	Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment.

Risk categories (primary)	Risk types (secondary) and description
Market risk (continued)	**Asset liability mismatching risk:** the risk of a change in value as a result of a deviation between asset and liability cash flows, prices or carrying amounts. Asset liability mismatch risk originates from changes in market risk factors.
	Concentration risk: the risk of losses associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).
	Market liquidity risk (trading liquidity risk or asset liquidity risk): risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimise a loss (or make the required profit).
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. Credit risks include:** **Default risk:** credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations.
	Downgrade or migration risk: the risk that changes in the possibility of a future default by an obligator will adversely affect the present value of the contract with the obligator today.
	Settlement risk: the risk arising from the lag between the value and settlement dates of securities transactions.
	Reinsurance counterparty 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.
	Credit spread risk: the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.
Funding 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 business)	**Insurance risk (life business) relates to operations regulated under the Long-term Insurance Act and which arises from the underwriting of life insurance contracts in relation to the perils covered and the processes used in the conduct of business. It includes:** **Underwriting risk:** the risk that the actual experience relating to mortality, longevity, disability, medical (morbidity) and short-term insurance risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.
	Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up 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.
	Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same/similar risk profile.
Insurance risks (short-term insurance business)	**Insurance risk (short-term insurance business) relates to operations regulated under the Short-term Insurance Act and which arises from the underwriting of non-life insurance contracts in relation to the perils covered and the processes used in the conduct of business. It includes:** **Claim risk (premium and reserve risk):** refers to a change in value caused by ultimate costs for full contractual obligations varying from those assumed when these obligations were priced. Claims risk is often split into reserve risk (relating to incurred claims) and premium risk (relating to future claims).
	Non-life catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty around pricing and provisioning assumptions related to extreme or exceptional events.

Focus areas for the next 12 to 18 months

Focus area	Required action
Respond to risks	• Implement the Be-Wise risk management system, which will give a timely view on risk changes and any other developments • Training risk owners and risk champions to actively and continually manage risk
Assign accountability and ownership	• Process owners to attend risk workshops and enhance the training around risk accountability issues and responsibility
Manage liaison network	• Risk champions from the respective business units across the group will meet frequently • Risk key performance indicators will be included in the liaisons' performance management measures
Build enterprise-wide risk management skills	• Upper management receive risk management training and development • ERM staff and full-time employees receive risk management training and development • Create an online platform for staff awareness
Foster risk awareness	• Provide risk training across operations to improve levels of awareness
Manage risk management technology	• Introduce a technology platform that will assist with tracking risks across the group

Risk appetite

BIHL has a risk appetite framework in place that assists with gauging the level of risk the group is prepared to take in pursuit of its objectives. Management reports on the performance against the risk appetites on a half-yearly basis. The board has put in place an approval framework which assists in delegating authority to management for processes within the operating subsidiaries. Our risk appetite statements seek to balance the benefits and costs of risk events linked to the group's activities and reflects the overall risk management philosophy.

The board has a number of tools that it uses to determine risk tolerance levels, the primary tool being setting risk appetites for each business. The risk appetites clearly state the level of risk tolerance for each risk category and the specific measures that will be tracked to ensure that management complies with the set tolerance levels of risk. Our risks are ranked by a combination of likelihood and severity taking into consideration the controls put in place by management.

Impact	1 Rare	2 Unlikely	3 Possible minus	4 Possible plus	5 Likely	6 Almost certain
6 Extreme	Type C	Type B	Type B	Type A	Type A	Type A
5 Major	Type C	Type C	Type B	Type B	Type A	Type A
4 Moderate plus	Type C	Type C	Type C	Type B	Type A	Type A
3 Moderate minus	Type C	Type C	Type C	Type C	Type B	Type B
2 Minor	Type C	Type C	Type C	Type C	Type C	Type C
1 Insignificant	Not specifically covered by escalation policy					Type C

Likelihood

Top risks

During the year the Group was exposed to some changes in the key risks which included the outbreak of COVID-19 and its multifaceted impact on the operating environment. Failure to adapt and navigate through the risks that arise from the ever-changing landscape environment may be detrimental to the success of the institution. Some of the main risks and landscape changes that the BIHL Group was exposed to in 2020 are outlined in the table below:

Risk	Description	Mitigation	Priority
COVID-19	Potential impact of COVID-19 on business operations – arising from diverse impact on clients and counterparties	• Observe safety protocols • Introduce digital client touch points • Strict cash flow management • High levels of alertness in handling credit matters	High (Type A)
Cybersecurity	Risk of loss of client or business information to cybercrime	• Strengthening of IT security • Regular staff training on common hacking methods and how to stay cyber safe	High (Type A)
Anti-money Laundering/ Combating Financial Terrorism and Proliferation (AML/CFT and P)	Risk of non-compliance with AML/CFT and P laws in handling client information and transactions	• Compliance projects implemented across the group	Medium (Type B)
Strategy	Risk that operations may not deliver on strategy	• Periodic review of performance versus strategy and alignment with prevailing environment	Medium (Type B)

Internal and external audit

Internal audit provides an assurance service which means that they review the group's risk management process and provide assurance on whether or not the process is working correctly. The audit team is not part of the group's risk team.

The group does not obtain external assurance on risk management.

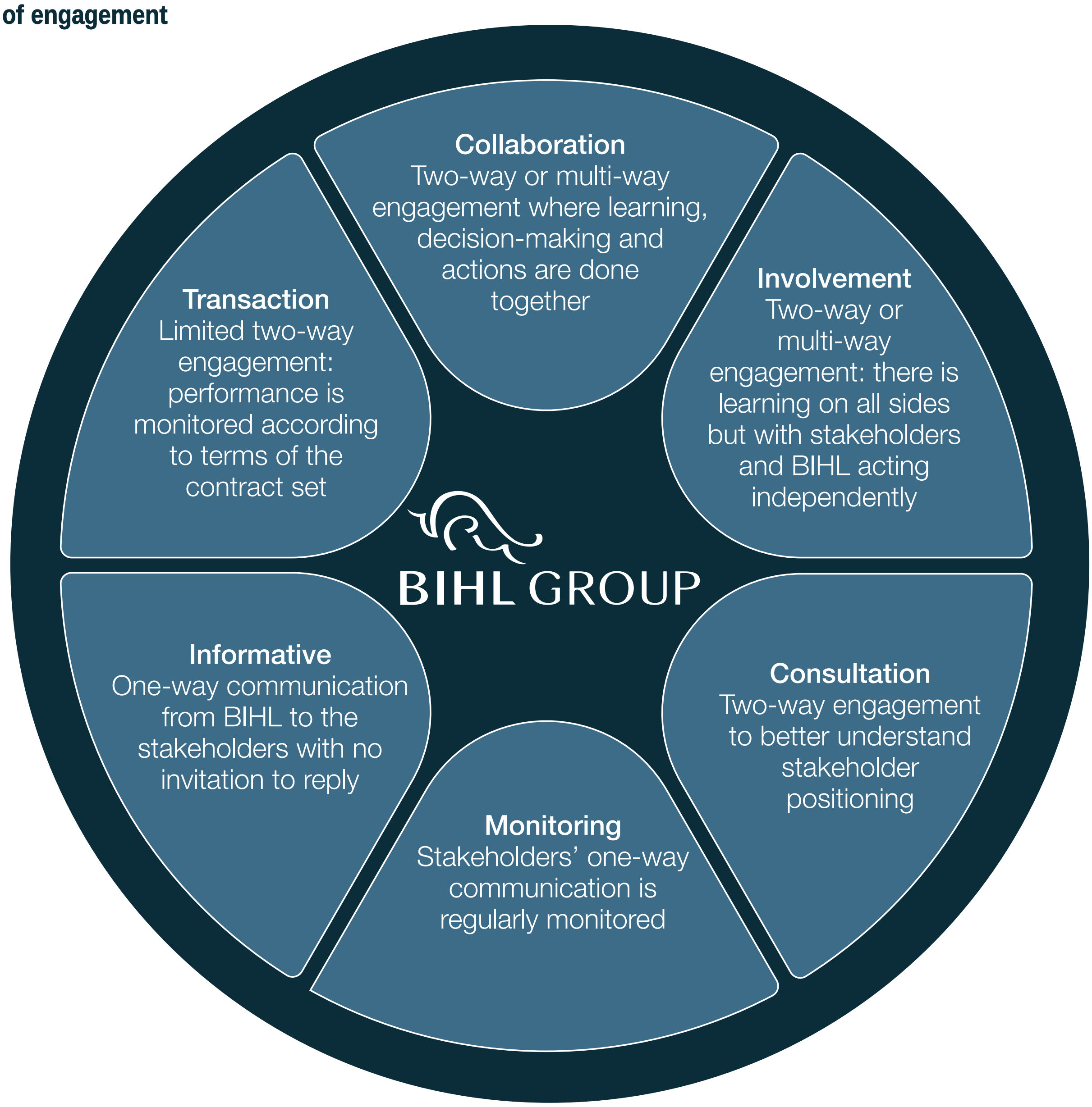
STAKEHOLDER ENGAGEMENT

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

We communicate with stakeholders through our website, regular newsletters, presentations, interaction with the media, one-on-one meetings and ongoing informal and formal discussions.

Types of engagement



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

Stakeholders	What matters to them	How we engage
Clients	• Assurance of insurance benefits when they fall due • Price • Transparency • Trust	**Face-to-face engagement forums with key clients** • Customer satisfaction survey **Involve** • Road and radio shows **Inform** • Print and social media broadcasts geared towards product development and regulatory developments
Employees	• Fulfillment (job satisfaction) • Career path (learning opportunities) • Staff engagement • Staff welfare • Remuneration, reward and recognition • Career progression	**Inform** • Virtual meetings • CEO's virtual engagements **Involve** • Regular engagement sessions • Focus groups • Employee toll-free lines • BIHL wellness programme
Intermediaries and distribution partners	• Access to markets • Opportunities to sell • Career progression • Servicing clients	**Inform** • Virtual meetings **Involve** • Motivational talks
Investors	• 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
Communities	• Health and safety • Investment in CSR initiatives	**Inform** • Publicise the objectives of the Trust in print media and group financial results presentations **Collaborate** • Engage with community leaders with insights into the needs of the underprivileged
Governments	• Disclosures • Compliance • Tight and more controlled regulatory universe	**Monitor** • Print media publications and reports from Government and other regulatory bodies
Suppliers and vendors	• Assurance on payments and commitments • Citizen procurement policy	**Transact** • Ensure alignment to procurement and invoice payment turnaround times
Trade associations/ unions	• Member benefits • Rewarding partnerships	**Involve and consult** • Webinars • Virtual meetings • Face-to-face engagement • Collaboration meetings
Key accounts	• Enhanced offerings • Distribution support • Data analytics	**Involve and collaborate** • Webinars • Workshops • Face-to-face engagements **Inform** • Key account performance reports

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

03
PERFORMANCE

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Despite the strong start to the year, 2020 was marked by the emergence and impact of the COVID-19 pandemic. Naively, many believed that the virus would be dealt with within the year. One year on, however, and we are still grappling with this pandemic with several countries experiencing third and fourth waves and mortality rates continuing to increase.

MS CATHERINE LESETEDI | **Group Chief Executive Officer**

What started off as a health concern soon escalated into a socio-economic catastrophe and exposed the vulnerabilities of many countries, from high inequality levels to already fragile public health systems and high unemployment rates, with poor countries being the hardest hit and bearing the full brunt of the pandemic. As a socially conscious entity, the BIHL Group, together with Sanlam Limited, heeded the Government's call for assistance and contributed P4,5 million to the Government COVID-19 Relief Fund.

The approval of several COVID-19 vaccines was a much-needed respite, however, the roll-out of these vaccines is reaffirming the unequal nature of the global economic base, with Africa lagging significantly behind other continents. The rebalancing of power, distribution of resources and wealth, massive investment into infrastructure and research is required to build resilient and more inclusive communities.

Lockdowns and the subsequent movement restrictions and extreme measures such as social distancing significantly impacted companies not already in the technology space, further testing the resilience of many business models. COVID-19 proved to be the catalyst for many businesses to accelerate their digital innovation and transformation agendas.

Like many other companies, our group was impacted by the pandemic. With the announcement of the first lockdown in April, we moved from full capacity to skeleton staff in a very short space of time and had to contend with new ways of working almost overnight. This raised another important subject for discussion, namely 'the future of work'.

While we had already started our digital and innovation journey, we were not fully ready to implement digital selling, especially as our sales platform was still in progress at the time (see the following section for further detail on the roll-out). The lockdown severely impacted our ability to sell on the retail side, which relies on face-to-face engagement. As a result, this stream of revenue completely ceased for two to three months.

Notwithstanding these impacts, some lines of business such as annuity and credit life were able to recover post lockdown due to servicing the backlog of clients who were retiring and the resumption of credit extension by our commercial bank partners. Performance of our group schemes was robust and exceeded expectations.

Considering the challenging period, our results for the year were very pleasing and bear testament to a diversified revenue base and the resilient nature of our business. Notable achievements are set out below:

- Profit after tax of P538 million grew by 19% over the prior year showing resilience of our core operating business and much-improved performance from our associate businesses;

- Value of new business decreased by just 18% to P129 million and was under pressure due to low new business volumes;
- Return on group equity value was 13% (2019: 13%); and
- Embedded value grew from P4,65 million in 2019 to P4,78 million.

We could not have achieved these solids results without the support of our loyal client base, spanning many different lines and segments as well as from our distribution partners and our employees whose determination was remarkable given the stressful conditions they had to endure. Our corporate value of collaboration saw us working and excelling together as a group, which is testament to our strength in numbers.

Subsidiary performance

Lockdowns impacted our businesses differently. Botswana Life is a trusted provider for over 200 000 lives with approximately 300 000 individual policies, and a market share of just under 70%. The traditional approach of face-to-face selling came under significant pressure, especially during periods of lockdown leading to significantly reduced individual life sales. This negatively impacted the value of new business, which dropped 18% compared to the prior year. Despite the pressure on new business, annual premium income grew by 11% driven mainly by the strong performance of our scheme business with operating profit remaining flat on the prior year. The claims experience pretty much mirrored the country's experience with very few COVID-19 claims recorded during the period.

In keeping with its stature in the industry, the company not only contributed to the Government COVID-19 Relief Fund but also reviewed the impact of COVID-19 on its clients and extended premium holidays to the most vulnerable sectors thereby keeping families covered, while providing much-needed peace of mind during a period of extreme challenge and anxiety.

Botswana Life honoured all claims during the premium holiday period living up to its promise of a trusted partner for life. This helped with client retention, and luckily our file size was resilient with lapses falling below expectations. Towards the end of 2020, we saw some clients begin to pay their arrears. In addition, the company extended financial assistance totalling P11,5 million to distribution partners in order to protect commission-based intermediaries who were not able to earn any commission due to reduced ability to procure new business.

At the beginning of 2020, the view was that markets had already written in expectations of the impact of COVID-19, but this was ultimately a misinterpretation from experts as evidenced by severe market volatility following the declaration of COVID-19 as a pandemic. Our asset management business, Bifm, was exposed to this significant market volatility especially in offshore markets as the local equity market was slow to react. Notwithstanding this volatility, our clients reacted calmly and rode out the storm, thanks to the reassuring voice of our investment professionals at Bifm. Our key strategy of retention, coupled with growth of 4% from P29,08 billion to P30,3 billion in assets under management and strict cost management saw the asset management business recording 11% growth in profit after tax of P538 million over the prior year. Bifm also contributed towards the P4,5 million raised by the group towards its contribution to the Government COVID-19 Relief Fund.

Associates

The group has interests in FSG, a funeral undertaking business and low-cost assurance provider, a leading provider in its industry; BIC, a general insurance company and the most profitable short-term company in Botswana; Nico Holdings PLC, a leading financial services group based in Malawi and lastly Letshego Holdings Limited, a leading Pan African microlender based in Botswana.

The year saw our associates perform well above expectations and the prior year, testament to their leading positions in the markets in which they operate in and proof of robust and well thought out strategies. The associates also accelerated their digital projects, with immediate adoption and reward by clients to some of the interventions. The absence of impairments during the year saw a marked improvement in share of profit after tax which grew from P128 million in 2019 to P236 million in 2020.

Over the broader company, we are very proud of our strategic choices in prior periods which focused on a collaborative approach to business development and building sustainable relationships, which bore fruit during this period. We were able to grow revenue from new relationships and increased penetration on existing relationships all of which contributed handsomely to our results.

Our response to COVID-19

Other than following measures implemented by the Government, our utmost priority has been the well-being and safety of our employees, customers, and stakeholders. When the lockdown was first announced, we established a crisis management team (chaired by myself) and immediately activated our crisis management response.

We developed a hybrid remote working policy that prioritised those who were required to work during lockdown. We procured additional laptops for our key resources working from home who previously had desktop computers, and

We approach value creation by focusing on all our current businesses and strengthening the core without losing sight of each individual operation, which ultimately contributes towards most of our profits.

we acquired additional PPE for those who remained in the office. Beyond the robust health and safety policy which is in place, we implemented policies around office work and general protocols as advised by the Government Task Force and Ministry of Health and Wellness.

Ahead of the Government's announcement to restrict travel, we had already initiated an awareness campaign and introduced a travel restriction policy that prohibited movement of employees outside of Botswana without prior written approval. We implemented this system long before the state of emergency regulations came into place.

In addition to the health protocols, we developed a rapid response checklist which assisted management with the identification of risks and vulnerable points in the value chain. The checklist was instrumental in the successful mitigation of operational, financial (liquidity, solvency and expense management) and human capital risks. The rapid response checklist has been very helpful to the business whenever a major event like a lockdown is announced with our responses guided by the detailed processes in the checklist. We continue to build onto the checklist to make it more robust and adaptable for future use.

COVID-19 continues to be the key risk for our business, affecting not only our employees, but the general public and business activity overall. We have maintained our protocol of decongested offices by allowing employees to continue to work from home and in shifts. The future of work is certainly a concept and an opportunity to be explored.

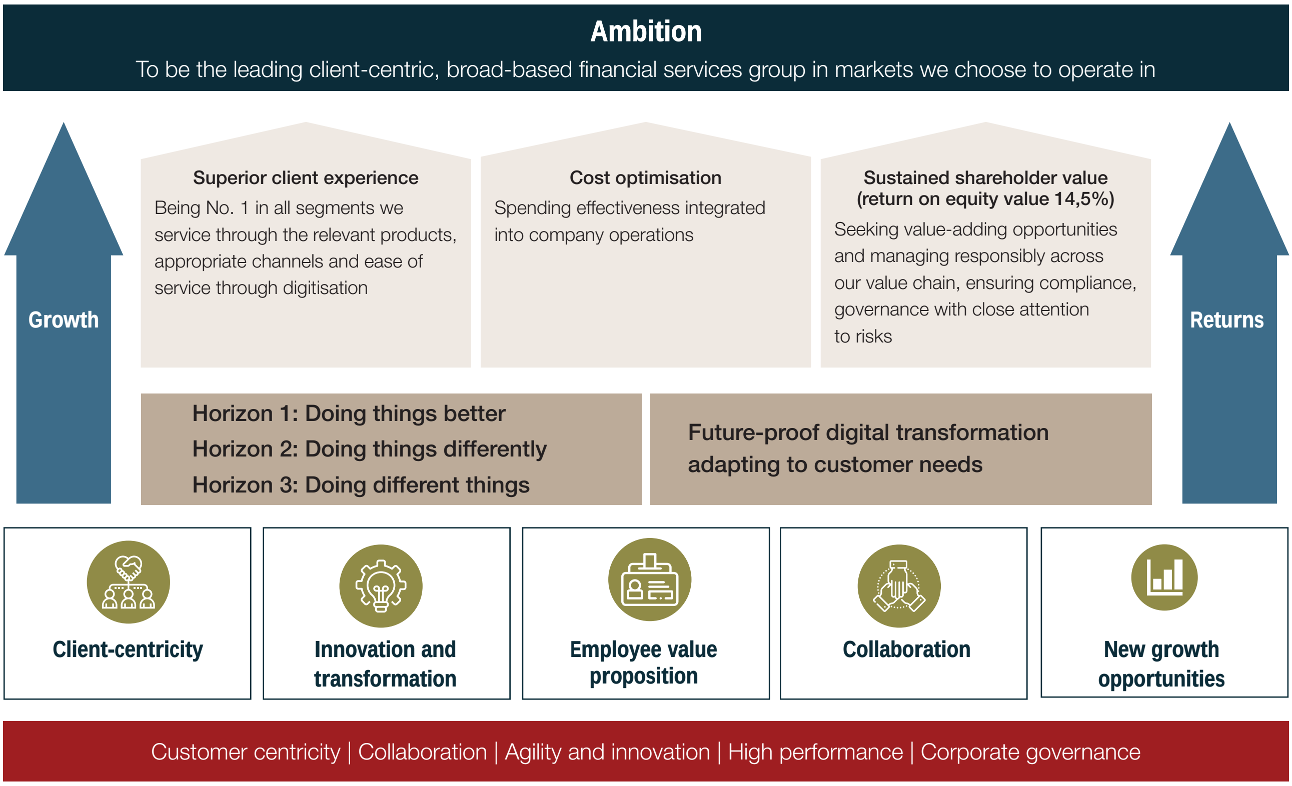
Caring for employees during COVID-19

Staff morale and mental wellness became topical and rightly so, given the extreme conditions of working. We are social beings by nature, and the introduction of lockdowns which separated friends and families, social distancing and remote working, took a huge toll on individuals and our employees were no exception. It was important for us to find ways in which to maintain contact with each other and we therefore introduced the group WhatsApp and Workplace platforms that we have maintained to date. These platforms were even more important for our colleagues who were not able to work during the lockdowns as they were kept informed of group developments through the same. Our primary objective was to keep everyone involved, whether actively working or not, and to reduce stress especially for those employees who may have been concerned about job security.

We conducted an employee survey to gauge employee morale during this period. The results were overwhelmingly positive, with the majority of participants revealing that they felt informed and that the business took proper care of them whether at home or in the office. Happy employees are key to achieving our strategic pillar of improving client experience. We continue to pay close attention to employee wellness given the immense and unforeseen toll of COVID-19 on individuals. The awareness campaigns are even more important given the escalating infection and mortality rates and the discovery of more virulent variants.

Building a digitally enabled business

Our five-year group strategy for 2019 to 2023 clearly articulates agility and digital innovation as a key lever to revenue growth and greater efficiencies while improving client experience. When COVID-19 was declared a pandemic, we had already advanced several technology projects and the sales platform had gone live in December 2019. We therefore



accelerated our digital efforts and introduced several platforms including WhatsApp for Business and customer portals at Bifm and BLIL as well as the enablement of digital forms, all of which were meant to aid remote engagement with our clients.

We experienced some challenges with the sales platform, ranging from unavailability of laptops and smart devices due to the disruption of the supply chain, lack of pervasive internet connectivity, high data costs and some defects with the system, all of which slowed down the roll-out of the sales platform thereby curtailing efforts to empower intermediaries to sell remotely. Notwithstanding these challenges, the lockdowns provided motivation for adoption by some intermediaries. We have since overcome the above challenges and efforts are ongoing to fully bed down the system and move to a paperless and seamless way of distributing our products. We expect to improve distribution effectiveness and reduce acquisition costs for our distribution partners.

We have made strides in integrating technology as a catalyst for change in the current macro environment. We adopted the use of electronic forms for claims by clients in our branches. This is a step in the right direction, considering that we have also expanded into WhatsApp for Business for the life insurance and asset management companies. We are advocating for early adoption by our clients, and we are continuously working to improve this useful yet limited functionality. The sales platform is now being integrated to our records management system, and also to Quirc, our automated underwriting tool, which uses algorithms to determine medical tests that clients applying for life cover are required to undergo.

We are excited about the future and among other interventions we are in the early stages of developing data analytics capability and AI as a means of drawing insights about our business to unlock value. The most exciting element is the emergence of new skills as a result of our new path.

Our approach to value creation

Our approach is premised on a twin approach of profit and sustainability.

We approach value creation by focusing on all our current businesses and strengthening the core without losing sight of each individual operation, which ultimately contributes substantially towards our core earnings. (See above image).

Client-centricity

In keeping with the group's mission of engineering legacies for our clients, we will continue to leverage our rich client base and, through the use of analytics, provide fit for purpose solutions for all our clients across many different segments. Our view is that while the market is considered mature, there are still growth opportunities and gaps that BIHL is well positioned to fill and provide solutions for. BIHL Group continued its quest to improve the quality of advice from agencies and brokers using its training academy. The study material provided is accredited and is top-ranking domestically in terms of quality and standard. In addition, the group continues to introduce relevant products and investment funds and services to its clients. The introduction of fiduciary services will further strengthen the group value proposition going forward. Automation of processes and the introduction of digital processes are improvements which should see a reduction in turnaround times and improved client and employee experience.

In 2021, our focus will be on ramping up our innovation and transformation efforts as we reposition the group for growth.

Innovation and transformation

During the year, the BIHL Group continued to build an agile and innovative culture. We have partnered with Deloitte on this journey which is an unchartered one for us. We are excited about the opportunities that this intervention is providing, from building new skills to transforming into an agile and innovative business and, most importantly, building a business that truly creates value and is a life partner to all its clients. This phase of our journey obviously comes with significant capital outlay, and shareholders can expect to see increased investment into capital projects impacting our costs in the immediate to medium term but with real benefits flowing to the business following the completion of the exercise.

Our dipstick survey to determine employee readiness for digital interventions was positive and this positions the intervention very well as there is employee buy-in. While this is quite exciting and is expected to bear fruit, the internal work is only part of the job with the bigger job being customer adoption. This is an area of focus as we roll out new technologies and new ways of engaging with our clients.

Employee value proposition

Our main focus during the year was securing the health and well-being of our employees especially with the elevated health risks of COVID-19. We therefore enhanced our wellness programme to extend to family members and ramped up awareness to increase the uptake of services provided by the Independent Counselling and Advisory Services (ICAS), our partner in this regard. A second focus area was on succession and talent management, especially on the back of the innovation and transformation journey which requires that we have skills which are future-fit to successfully achieve our strategic ambitions.

We reviewed our identification process for successors and high-potential employees and introduced a new process, which provides an opportunity for employees to apply to be in the respective pools including roles to which they aspire. This is a material change from our previous practice where nomination was done by line managers. We are confident that this process will produce much better results and increase prospects of building a strong skills base and improve our bench strength.

This is exciting because suddenly the whole value around the high-potential pool has been lifted, and the perception that some people do not belong is debunked. Over time we are building a pool of qualified employees, so we do not necessarily need to look externally. This demonstrates our commitment to our employees and is more efficient in terms of logistics.

Collaboration

Collaboration is one of our key strengths and an approach that we employ to all areas of the business, including our approach on how we co-create with business partners. We are pleased that, through our collaborative approach, the operating businesses were rightly positioned and more competitive, enabling client retention, new acquisitions and improved solutions to our clients and increased cross-selling opportunities.

Outlook and prospects

Global economic growth for 2020 was projected of -3,5% with sub-Sahara at -2,6% in 2020. The International Monetary Fund (IMF) forecasts contraction of -4,9% in 2020 and 5,5% growth in 2021 with 3,2% forecast for sub-Sahara. GDP growth estimates for Botswana for 2020 were IMF: -9,9%; Ministry of Finance and Economic Development (MFED): -7,7% and for 2021 IMF: 8,6%; MFED: 8,8%.

The bank rate of 3,75% in October 2020 was maintained in February 2021. The Bank of Botswana (BOB) is expected to increase the bank rate by 25bps to 4% by the end of 2021 as the economy begins to respond to monetary and fiscal interventions.

COVID-19 and various restrictions, and second and subsequent waves, globally and regionally, will continue to have negative impacts on world economies. The benefits of successful vaccination programmes are expected to start seeing economies recover, however, implementation is not globally widespread as yet.

This year's budget speech confirmed several levy and tax increases, including a VAT increase to 12%. We expect that this will put pressure on household income and business. An increase to the income tax threshold from P36 000 to P48 000 is positive, but this will be negated by the introduction of various levies and the increase in VAT. Interest rates remain favourable, but on the back of reduced business activity, perhaps there is not much to be gained. Inflation continues to lag the reserve bank range of 3% to 6%; we ended the year at 2,2%, far below the range. The expectation is that with the additional taxes there will be inflationary pressure going forward.

Botswana is still under a state of emergency in early 2021. This includes the continuation of a Government moratorium intended to protect employees from being retrenched by their employers. While retrenchments did not officially happen, a lot of employees from vulnerable sectors were put on unpaid leave or substantially reduced pay. This has constrained household income and we will only see real figures for unemployment once the state of emergency has been lifted.

The hardest hit sectors in Botswana, mining and tourism, will need to improve and operations will need to pick up in order to protect other industries that rely on imports, exports and travel, ultimately bringing in revenue for Botswana.

Botswana is experiencing a high level of unemployment, specifically for youth and graduates, which has worsened due to the pandemic resulting in a contraction in GDP to 8,9% (2019: 3%).

The economic challenges brought to bear on individuals and businesses, especially SMEs, have been severe, with expectations of rising unemployment due to closure of businesses as well as household incomes coming under pressure. All these impacts will have consequences for our business, from the ability to meet new business targets, retention of clients and margins on various lines. Important to note is that the rising COVID-19 mortality rates will also result in elevated claims on some of the lines. Likewise retrenchments will lead to an increase in claims for our general insurance associate business.

We will accelerate our digitalisation plans to continue building a more efficient business. By creating additional sales channels, we will be able to assist our brokers and representatives to better target clients in cost-effective ways.

Over time, it has been proven that big businesses lose agility due to the sheer size of their client base and bureaucratic processes; hence our focus on providing relevant products, digitally enabling our business and building affordable products for segments that are not serviced through traditional means.

It is critical that, as a business that relies heavily on its people, we do not leave anyone behind. As we go through this transformation journey, we are focused on bringing our employees with us so that they can fit into the new world of working.

Appreciation

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, policyholders and advisors for their loyal support.

Catherine Lesetedi
BIHL Group CEO

GROUP CHIEF FINANCIAL OFFICER'S REPORT

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

MR KUDAKWASHE MUKUSHI | BIHL Group Chief Financial Officer

We measure ourselves on the basis of return on group equity value which totalled 13%, marginally below our target of 14,5% as a result of disruption in economic activity due to various COVID-19 lockdowns. Given the challenging environment, this is a remarkable result as the economy shrank and lockdown restrictions meant that our biggest subsidiary, Botswana Life, was not fully operational and hence not able to sell to retail clients during the lockdown periods.

The return on group equity value for our core subsidiary, Botswana Life Insurance, totalled 12,3% against a target of 17,7%. While the value of in-force business grew year-on-year by close to P60 million, the reduced value of new business meant that the return for Botswana Life was subdued. Value of new business was negatively impacted by reduced business volumes for our retail lines.

Despite the subdued new business volumes, the life business saw a growth in premiums for the year of 11% primarily driven by recovery in single premium sales volumes in the second half of the year. Recurring premiums grew by 8% compared to the prior year. Operating profit was flat compared to the prior year showing significant signs of resilience.

Our asset management business did very well with return on group equity value of 19,7% 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 27% year-on-year.

Our largest associate, Letshego, has lagged the past three to four years, however, they recorded a slight recovery with return on group equity value of 14,4% just short of the target of 16%. The COVID-19 lockdowns in various countries where Letshego operates saw reduced activity which resulted in subdued loan book growth especially during the first half of the year. 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 18% against a target of 25%. 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 Nico Group profit before tax and minorities grew by 79%. The group presents good opportunities for growing shareholder value especially if the profits generated by the bank and asset management company continue to grow consistently.

Reduced funerals and funeral capacity limits imposed by the Government during lockdowns resulted in reduced profit contribution from the core for FSG. The insurance book, however, mitigated the low performance on the core undertaking business resulting in a profit before tax growth of 49% for this associate. FSG's return on group equity value of 15,3% was in line with the target of 15,5% mainly driven by the profits generated in Botswana. Zambia and South Africa also contributed to the profit position while Zimbabwe is yet to turn the corner.

BIC, of which we own 50%, had a target return on group equity value of 14%, however, it was 0,04% for the year. From a profit perspective, we performed well but the return on group equity value also considered that the fair value of the company has not done well due to excess capital on the balance sheet. The BIC board is in the process of establishing the best strategic use for the excess capital and will consider various investments. This will inform valuation assumptions going forward.

Profitability

We look at profitability in two different ways: we consider the operating profit for various subsidiaries before tax, and then we consider our share of the operating profit. Overall, we saw growth of 9% over the year which by any standard is great. Growth came from the Nico Group, FSG, BIC and Bifm with a healthy margin on gross numbers.

Botswana Life, which was the largest contributor to operating profit, came out flat year-on-year at P379 million. This was due to lower margins in the annuity business, low new business volumes on individual life and higher spending to ensure that the working environment was safe for employees and customers, as well as increased

Key financial statistics

	2020 P'000	2019 P'000
Net income	**2 988 560**	2 696 266
Other income and expense	**298 183**	1 076 904
Administrative expenses	**374 909**	353 675
Profit from investments	**236 128**	215 080
Participation in profits of joint ventures	**21 140**	13 921
Finance income/(expense)	**861**	1 110
Current and deferred income taxes	**128 664**	98 919
Net profit after taxes	**537 509**	440 564
Exclusions for earnings	**70 212**	6 486
Distributable earnings	**467 297**	434 078

Headline earnings and distributable income reconciliation

	2020 P'000	2019 P'000
Headline earnings	**537 509**	440 564
Exclusions for earnings	**70 212**	6 486
Distributable earnings	**467 297**	434 078

spending to equip employees to work from home.

Bifm's Botswana arm performed well with operating profit before tax showing 27% growth year-on-year from P37 million in the previous year to P47 million. This result is off the back of administration fees that grew 11% year-on-year, and costs that were kept in check. The Zambian arm of the business did not perform as well reaching only 78% of operating profit before tax when compared to the prior year.

Letshego did not perform as well compared to the prior year at 91% of last year's operating profit before tax. Given the prevailing economic conditions, however, the results were considered resilient. The loan book growth is considered appropriate given the prevailing business conditions. Collections on impairments were good and recoveries on previously impaired loans was good. The effective tax rate has been of some concern but has come through at target levels.

FSG was impacted by reduced funerals due to COVID-19, however, the assurance book grew significantly with 21% growth in premiums collected compared to the prior year, resulting in a 49% growth in operating profit. The significant increase was primarily driven by the assurance book as it demonstrated sustainability with monthly premium contributions towards funeral policies. The core undertaking business was up 1% year-on-year.

BIC had a steady top line in relation to gross written premiums which were up 1% year-on-year. Net written premiums were 5% above the prior year as we had a good claims year. Our underwriting profit grew 33% year-on-year which led to growth in operating profit before tax

We had a strong and resilient financial year with group equity value increasing by **P133 million** from **P4,65 billion** to **P4,78 billion** which speaks to the value embedded in our operations.

of 46%. Our motor business specifically contributed towards this with a strong claims year.

Expenses

In the second half of the year, expenses grew in line with the increase in sales after lockdown. Administrative expenses were above the prior year but well managed as we adapted to the new way of working. We had to ensure a safe work space for our employees which pushed up administrative expenses from the prior year. This is not of concern as it is imperative we invest in the safety of our employees and customers.

Profit after tax

Profit after tax grew 22% year-on-year with the Botswana Life business contributing the bulk of the profits, followed by Letshego, Nico Group and Bifm. Our other divisions also supported us in achieving this positive result.

We had a strong and resilient financial year with group equity value increasing by P133 million from P4,65 billion to P4,78 billion which speaks to the value embedded in our operations.

Capital cover

We have a very solid base to work from with a well-capitalised group that is future ready. We have 6,3 times the required capital cover, down from 7,1 times last year as a result of the capital requirement increasing from P400 million to P460 million.

Claims and benefits

This year, we paid close to P1,7 billion in claims, P40 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. Our balance sheet confirms that we can continue to do this for the foreseeable future.

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 CFO

GROUP EMBEDDED VALUE

For the period ended 31 December 2020

1. Definition of embedded value

The 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. The 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 2020, 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 December 2020 P'000	31 December 2019 P'000
2. Embedded value results		
Shareholders' net assets excluding goodwill	**2 910 930**	2 840 992
Fair value adjustments	**–**	–
	2 910 930	2 840 992
Value of in-force business	**1 870 893**	1 810 554
Value before cost of capital	**1 812 147**	1 775 420
Fair value adjustments	**235 748**	183 102
Cost of capital	**(177 002)**	(147 968)
Embedded value	**4 781 823**	4 651 546
Embedded value per share (Pula)	**16,93**	16,47
3. Embedded value earnings		
The embedded value earnings are derived as follows:		
Embedded value at the end of the year	**4 781 823**	4 651 546
Embedded value at the beginning of the year	**4 651 545**	4 428 757
Change in embedded value	**130 278**	222 789
Movement in capital and opening net asset value reinstatement	**49 480**	(16 553)
Dividends and new capital	**424 202**	368 684
Embedded value earnings	**603 960**	574 920
Return on embedded value	**13,0%**	13,0%
These earnings can be analysed as follows:		
Expected return on life business in force	**175 575**	146 522
Value of new business	**138 551**	170 428
Value at point of sale	**128 803**	157 699
Expected return to end of year	**9 748**	12 729
Operating experience variances	**55 727**	88 659
Mortality/morbidity	**57 338**	27 612
Persistency	**(1 941)**	29 136
Expenses	**(13 392)**	8 185
Other	**13 722**	23 726

GROUP EMBEDDED VALUE continued

For the year ended 31 December 2020

	31 December 2020 P'000	31 December 2019 P'000
3. Embedded value earnings continued		
Return on embedded value continued		
Operating assumption changes	(6 322)	(20 085)
Mortality/morbidity	84 481	(15 851)
Persistency	(5 433)	(61 680)
Expenses	(88 721)	76 521
Other	3 351	(19 075)
Embedded value earnings from operations	363 531	385 524
Investment variances	26 571	39 440
Economic assumption changes	(74 300)	30 542
Interest and Inflation	(11 458)	3 788
Risk discount rate	(62 842)	26 754
Growth from life business	315 802	455 506
Return on shareholders' assets	235 512	122 201
Investment returns	(16 146)	(19 573)
Net profit non-life operations	251 658	141 774
Change in shareholders' fund adjustments	52 646	(2 788)
Investment surpluses on treasury shares	3 425	(77 531)
Movement in present value of holding company expenses	(5 240)	(5 830)
Movement in fair value of incentive scheme shares	(7 242)	(5 243)
Movement in other net worth adjustments	61 703	85 816
Embedded value earnings	603 960	574 919
Fair value adjustments		
Staff share scheme	(33 836)	(28 596)
Non-life operations write-up to fair value	382 029	320 326
Group holding expenses	(155 344)	(148 102)
Reversal of cross-holding adjustment	42 899	39 474
Total	235 748	183 102
Net asset value adjustments	–	–
Value of in-force business adjustments	235 748	183 102

4. 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 2020, 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 December 2020 P'000	31 December 2019 P'000
Value of new business at the end of the year	**138 551**	170 428
Value at point of sale after cost of capital	**128 803**	157 699
Value at point of sale before cost of capital	**139 438**	165 204
Recurring premium	**78 742**	106 282
Single premium	**60 696**	58 922
Cost of capital at point of sale	**(10 635)**	(7 505)
Expected return to end of year	**9 748**	12 729

5. 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	11% P'000	1% reduction P'000	1% increase P'000
Shareholder's net assets and fair value adjustments, excluding goodwill	2 910 930	2 910 930	2 910 930
Value of in-force business	1 870 894	1 976 890	1 768 124
Value before cost of capital	1 812 147	1 896 581	1 727 321
Fair value adjustments	235 748	235 748	235 748
Cost of capital	(177 002)	(155 439)	(194 945)
Embedded value	4 781 824	4 887 820	4 679 054
Value of one year's new business at valuation date	128 803	134 710	122 733
Value before cost of capital	139 437	144 922	135 297
Cost of capital	(10 635)	(10 211)	(12 564)

6. 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 December 2020 %	31 December 2019 %
6.1. Economic assumptions		
Best estimate economic assumptions are the same as assumed in the financial soundness valuation as shown in the financial statements. The main assumptions (% per annum) used are as follows:		
Risk discount rate	**11,00**	10,00
Overall investment return (before taxation)	**8,58**	7,58
Expense inflation rate	**4,50**	3,50

6. Assumptions continued

6.2. 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 2020.

6.3. Expenses

A 4,5% expense escalation per annum was assumed going forward (2019: 3,5%).

6.4. 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 2020.

6.5. Persistency/surrender basis

The assumptions for lapse and surrender rates are based on the results of experience investigations conducted on 30 November 2020 by the company.

6.6. Tax

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

6.7. Mix of assets backing the capital adequacy requirement

	31 December 2020 %	31 December 2019 %
Asset class		
Equities	**–**	–
Property	**50,0**	50,0
Fixed interest securities	**–**	–
Cash	**50,0**	50,0
Total	**100,0**	100,0

6.8. 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.

7. 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 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 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)

REPORT OF THE INDEPENDENT ACTUARY

The results presented in this integrated annual report are based on the requirements of the Companies Act (CAP 42:01), 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 and referred to as the prescribed basis. As at 31 December 2020, the liabilities under the two approaches are the same.

Statement of actuarial values of assets and liabilities

	31 December 2020 P'000	31 December 2019 P'000
Total assets	13 799 194	13 074 545
Current liabilities and deferred tax	(818 895)	(600 806)
Net assets	12 980 299	12 473 739
Actuarial value of policy liabilities	(10 849 176)	(10 444 103)
Excess of assets over liabilities	2 131 123	2 029 636
Capital adequacy requirement	362 110	321 268
Capital adequacy requirement cover	5,89	6,32
Analysis of change in excess of assets over liabilities		
Excess assets as at the beginning of reporting the period as previously reported	2 029 637	1 945 335
Excess assets as at the end of the reporting period	2 131 123	2 029 636
Change in excess assets over the reporting period	101 486	84 301
This change in the excess assets is due to the following factors:		
Investment return generated by excess assets over liabilities	5 823	16 648
Changes in valuation methods or assumptions	(18 593)	38 007
Operating profit	397 459	339 878
Taxation	(97 520)	(94 074)
Ordinary shareholders' surplus for the period	287 169	300 458
Share of profit from an associate company	180 701	74 737
Changes in reserves of associates	(44 418)	(4 610)
Capital raised and dividends paid	(321 967)	(286 284)
Total change in excess assets	101 486	84 301

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 P18,6 million as at 31 December 2020 (2019: decreased by P38 million). The impact of valuation assumption and methodology changes on policyholder liabilities are summarised below:

	2020 P'million	2019 P'million
Assumptions and model change		
Mortality	**(4,5)**	35,2
Lapses	**(0,4)**	(0,7)
Expenses	**19,7**	6,5
Economic	**4,1**	(10,1)
Other	**(0,2)**	(68,9)
Total	**18,6**	(38,0)

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-Banking 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 on 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

Insurance contracts and investment contracts with participation in profits on a discretionary basis

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; and
- discretionary margins determined to release profits to shareholders consistent with policy design and company policy.

The value of policy liabilities as at 31 December 2020 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. No specific adjustments have been made on mortality assumptions for the impact of COVID-19 as experience

so far shows insignificant additional COVID-19-related population mortality rates, when compared to actuarial assumptions. The company has also not experienced a significant impact of COVID-19 on claims experience. The trajectory of COVID-19 is, however, highly uncertain and infection rates may increase as new strains emerge, population adherence to COVID-19 protocols changes and the winter season arrives. Roll-out of vaccines and national immunisation programmes on the other hand will potentially help reduce infection rates and by extension COVID-19 mortality rates; and

- 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. A provision for an expected increase in lapse rates due to COVID-19 has been set up by assuming base lapse rates will go up by 15% for investment products and 10% for risk products over the next two years.

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 (IBNR) 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 reserve 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 8,58% per annum (2019: 7,58%). A discount rate of 7,5% per annum (2019: 7%) was used. 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 (2019: 15%);
- Lapse reserves for the expected negative economic impact of COVID-19; and
- 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 P354,9 million (2019: P313,2 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 estimated future inflation. The current Botswana inflation rate was not used as it was believed to not fully reflect factors affecting inflation in the medium- to long-term period. The estimate for the future expected Botswana inflation was obtained from an economist.

The assumptions quoted below as follows the allowance for compulsory and discretionary margins and tax:

	2020 %	2019 %
Gilt return	**7,5**	6,5
Equity return	**11,0**	10,0
Property return	**8,5**	7,5
Cash return	**6,5**	5,5
Average return	**8,4**	7,4
Expense inflation	**4,5**	3,5

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 2020. The most recent mortality investigations for annuity and the individual life retail book were done in November 2020.

Expenses

Provision for expenses (before adding margins) starts at a level consistent with the greater of the company's current experience and next year's budgets, and allows for inflation of 4,5% (2019: 3,5%) 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. An adjustment of negative P32 million has been made on certain unlisted assets in the annuity portfolio to allow for increased credit risk due to the impact of COVID-19 on the bond issuers' ability to service debt held by the company.

Prescribed capital target

The prescribed capital target (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 BLIL, the maximum capital target is on the terminal capital target basis.

The ratio of accumulated surplus to PCT of P362,1 million (2019: P321,3 million) under the prescribed basis is 5,89 times (2019: 6,32 times).

I hereby certify that:

- The valuation of BLIL as at 31 December 2020, 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 Industry Prudential Rules 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

OPERATIONAL REVIEWS

- Resilience in response to COVID-19
- Net insurance premium increased by 11% to **P2,88 billion**
- Market share **69%** 2020

MR RONALD SAMUELS | **Botswana Life: Chief Executive Officer**

On 11 March 2020, WHO declared the COVID-19 outbreak a pandemic. "This is not just a public health crisis, it is a crisis that will touch every sector – so every sector and every individual must be involved in the fight," *WHO Director-General's opening remarks at the media briefing on COVID-19.*

COVID-19 – a global crisis

In early 2020, the world arose to a global crisis of epic proportion affecting every country, every sector and every livelihood. Despite the challenging environment, Botswana Life remained resilient aided by the leadership of the crisis management team and the collective effort of Team Botswana Life. It has been a challenging year for Botswana Life and the insurance industry, enduring two and a half months of hard lockdown and subsequent restrictions due to COVID-19. Our business was classified as an essential service with all branches continuing operations under strict regulations. We adopted a flexible and agile mindset that led to strategic pivots and a new way of doing things including apt scenario planning, swift adherence to public health protocols, facilitating remote working, alternative distribution and service channels and accelerated digital drive.

Strategy – *Se, Sa Rona* ('this is ours')

We continued progressing the five-year strategy implemented in 2019. Through our flexibility and agility, we continue

Botswana Life

- Recurring premium increased by 8% to **P1,6 billion**
- **New subsidiaries:** Botswana Life Retirement Annuity Fund and Botswana Life Fiduciary Services
- **Awards:** Best Life Insurer 2020, Most Admired Brand (financial sector)

to strive for innovation and digital transformation to emerge as a strong preferred partner and Botswana's first choice in life insurance-based financial solutions.

We launched two new subsidiary businesses during the year. Botswana Life Retirement Annuity Fund was a growth opportunity resulting from the changes in the legislation regarding pension funds. We also soft launched Botswana Life Fiduciary Services which deals with wills and deceased estates.

We continued with our strategic mandate to be flexible and agile by reviewing our operating model to ensure compatibility in dealing with the pandemic. The biggest impact of the pandemic was on the well-being and psyche of our people that required a focus on keeping our people motivated in a time of uncertainty.

Profitability and growth

Revenue grew by 11% to P2,88 billion in 2020 compared to P2,60 billion in 2019 underpinned by the resilience and effectiveness of our strategic pillars. Operating profit remained stable during the period under review.

Value of new business experienced a significant decline of 18% largely due to lower margins on annuity business and low new business volumes volumes from retail because of lockdowns and movement restriction.

Despite the impact of COVID-19, our corporate business again had a phenomenal 2020, similar to the prior year. The corporate portfolio showed double-digit growth on all major group products, namely Group Credit Life, Group Funeral and Group Life Assurance. This was supported by our ability to pay out claims and our long-term partnerships.

During the year, Botswana Life paid out insurance claims total of more than than P1,65 billion and assisted over 11 000 pension beneficiaries per month across all branches. We increased our market share to 66% for FY20.

As a business, our medium-term strategy remains profitability and growth with a strong focus on improving the value of new business and cost reduction.

Stakeholder experience

The success of our business is anchored on a great stakeholder experience. We strive to delight our customers in every interaction with us, achieve distribution excellence by continually finding ways to improve our intermediaries' proposition, foster strong partnerships and high-performance teams through enhanced employee value proposition.

Customer delight

We reviewed our operating model in line with market trends and evolving customer needs. Following the customer value proposition exercise in 2019, we carried out a customer satisfaction survey in 2020 to obtain direct feedback from our customers and attained a final customer index score of 72%. In our desire to improve and achieve a higher score, we introduced a stakeholder experience forum tasked to identifying and addressing identified pain points experienced by our various stakeholders. We believe this is an essential management action to ensure that we significantly improve the customer experience at Botswana Life.

Distribution excellence

We continue to improve our stakeholder experience by moving the company from a product-driven distribution model to a needs-based advice-driven model. Our strong focus on costs is premised on offering cost-effective solutions to the Botswana market.

COVID-19 has elevated our strategic ambitions while making us more responsive with the introduction of new operating models and more agile business methodologies. We introduced an omnichannel contact centre system that allows for interactions from various points. The new system enabled us to launch a new telesales channel that achieved a stellar performance.

As we celebrated 45 years of operation in 2020, we reflected on what got us this far and deliberated on what will take us even further. We have introduced the very first training academy at Botswana Life that aims to give rise to a new breed of insurance representatives. As we drive towards the advice-driven distribution model in our business, all sales intermediaries need to pass proficiency and psychometric tests, stricter onboarding measures and understand financial needs assessment and analysis. The academy delivered online training through the use of collaborative tools and we expect this format to continue post COVID-19.

Advisory distribution

Botswana Life is building its advisory services capability using a market segmented approach. This needs based approach relies on an informed understanding of our diverse clients financial planning needs and matching it with the appropriate advice, product and services. We are using technology to transform our advisory, operational and servicing capability as we transform from a product to a needs based advisory business. This has enabled us to launch a virtual sales platform enabling our Intermediaries to engage and advise their clients remotely. This strategy is key to ensuring Botswana Life becomes Botswana's Trusted Adviser.

Digital transformation

As we venture into the digital age, we have evaluated our digital capabilities and devised a clearer digital transformation journey map. Digital interactions were our biggest competitive advantage in FY20 and underpinned our drive to profitability. In bolstering our systems, we were able to give more product choice and digital options to our clients. Our customer portal embedded with online transaction capability will provide much-needed convenience. The concerted effort to digitise and use real-time data to analyse client needs is aligned with our strategic objective of improving the stakeholder experience.

Board changes

Chandra Chauhan joined the Botswana Life board as Chairman on 1 September 2020. John Hinchliffe had been the Chairman since 2010.

Looking ahead

We will continue to tailor our response to the effects of the COVID-19 pandemic in line with shifting regulations. Our use of digital transformation to improve product innovation is top of the agenda in FY21. It will be used as a tool for the diversification of our channels and improved convenience. We aim to repeal the legacy system and introduce new financial solutions and improve efficiencies for both the business and the people of Botswana. Above all, we will aim to continue to delight our customers.

Appreciation

Firstly, I would like to thank all the clients of Botswana Life for their loyal support over the past 45 years – without you there is no Botswana Life. I would like to thank our dynamic and committed executive team and all employees, and the distribution network for their dedication and hard work throughout the year, especially during a particularly challenging year. My appreciation extends to the BLIL board and the BIHL Group for their prompt and valuable guidance.

Ronald Samuels
Botswana Life: CEO

- **27%** profit growth
- Launched two new retail funds
- AUM grew by **4%** to **P30,3 billion**

MRS NEO BOGATSU | Bifm: Chief Executive Officer

It has been a tough year for the Bifm Holdings due to the COVID-19 pandemic and we understand that our response to the challenging trading environment ultimately defined our success or failure for the year. Bifm provides investment management services for both corporate and retail clients with operations in two countries, Botswana and Zambia.

Bifm – Asset management

Bifm is guided by its five-year strategy ending 2023, which is reviewed annually to ensure alignment with our trading environment. Our strategy is premised on four strategic pillars that act as a compass for our business. These strategic pillars are: enhancing the customer value proposition, client-centricity, continuous improvement of efficiencies and attracting, developing and retaining the best talent to advance our organisational capability.

At the end of 2020, our AUM were P27,2 billion compared to P25,2 billion in 2019. We successfully completed all of our strategic focus areas for 2020. As a result, Bifm's profit increased by 27% to P48 million including the performance from the Bifm Unit Trust business and building on the solid foundation we laid in 2019 at the inception of our new strategy.

The COVID-19-related risks are still prevalent at Bifm and will continue to be for the coming months. We have implemented technology that improves operational efficiencies by moving to virtual discussions with clients. In order to support an uninterrupted workflow, we have created a hybrid work environment which allows employees to work from home and in the office.

Our ability to sell products face-to-face to clients by our retail business was also constrained. Despite the retail business not meeting its set targets, the company retained all of its clients during the year, a remarkable achievement given the market conditions.

As a trade-off, the challenges faced in our retail business were an accelerant to our technological initiatives that will in the future yield cost reduction benefits as well as a better service experience for our clients. We launched two new retail funds in June 2020 after observing the market and our clients' behaviour. Letlotlo Education Fund and Ya Masa Junior Fund are medium- to long-term products with a minimum of a seven-year lock-in period. By nature, unit trusts are prone to early withdrawals by clients as they are easy to divest. With financial literacy at the core and our drive to instil disciplined saving for long-term investment horizons, Letlotlo is a children's education product and Ya Masa is an investment savings fund for children. Our main objective is to bolster our AUM in order to become the one-stop shop for financial products.

We embrace digital transformation as a tool to improve efficiencies and to delight both our customers and employees. During the year, we completed an automation process that helped with simplifying the investment accounting and reporting processes. We now collect information in real-time with the use of analytics and we align with changing client trends and habits which has significantly reduced the scope for error. The move from manual to automation translates to minimal error in funds accounting and reporting, improved service delivery and cost savings.

Our people

People are critical to our business and we are committed to their training and development. As evident in our strategy, our business is reliant on human capital and its success depends on it. Bifm is committed to upskilling its employees to improve performance and value proposition.

Across the business, we currently employ 31 staff members directly and 11 staff members indirectly as part of our retails sales force. Under the prevailing circumstances, our priority has always been to ensure the well-being of our people. We ensured that we had the appropriate resources to pursue business even in the current challenging environment.

During the year, we embarked on a human capital project that focused on reviewing the current skills requirements and ensuring that it aligns with our future growth and expansion vision through client-centricity. We continuously liaise with the people management function to improve our employee value proposition.

We believe that attracting, developing and retaining the best talent has long-lasting benefits for the company. We aim for long-term employee retention through upskilling and on-the-job training. Employee motivational programmes and continuous professional training are core to Bifm's sustainability.

Zambia – Asset management and benefits consulting

Our Zambia business continued to achieve a positive performance despite the challenging macroeconomic factors in Zambia. Operating profit declined by 22% year-on-year to P16 million, exacerbated by a weaker exchange rate as the Kwacha depreciated by more than 40%.

Global recovery uncertainty and internal debt crisis continue to be a significant risk for Zambia. The economy slipped into a technical recession in Q2 2020 as the pandemic's fallout battered Zambian trade. The country became the first in the region to default on its sovereign debt obligations due to a liquidity crisis compounded by the impact of COVID-19. We expect volatility to persist amid the ongoing liquidity crisis that has resulted in unavoidable slow progress in economic recovery.

Khumo Property Asset Management

Khumo Property Asset Management is jointly owned by Botswana Insurance Fund Managers and Eris Property Group of South Africa and specialises in property asset management, property management, facilities management, property development, leasing, investment broking and valuation. During the year, the company, increased its operating profit by 36% which we attribute to management's resilience in growing the business despite the difficult operating environment. Our diversified portfolio mix has been optimal in driving the Khumo value proposition and achieving year-on-year growth despite the pandemic. The synergies and competitive advantages drawn from the two parent companies are always utilised to enhance the Khumo strategy.

As shopping malls and other properties were affected by the pandemic, we saw a considerable reduction in business. We assisted tenants in various ways to lessen the financial impact due to lack of sales by offering rental discounts and payment holidays to tenants during lockdown. The trade-off was a reduction in overall rent collections, which form the basis of the company's fee income. We continue to collaborate with our tenants to identify and address trends that affect them in order to secure their tenancy in our properties for the long term.

Khumo assists with services geared towards the formulation, implementation and management of strategies to realise return and portfolio growth objectives.

Amid COVID-19, our investment broking division was able to successfully conclude a number of fee-earning transactions during the year, demonstrating the resilience of the business on the back of a challenging economic climate. In the year ahead, we intend to continue exploring more revenue streams and reduce overreliance on our core business.

Looking ahead

We remain steadfast and consistent in following our proven working operating model. The volatility in the global market due to COVID-19 is expected to continue as talks of vaccination roll-outs continue. We are optimistic that we will continue to develop and deliver value-accretive solutions for all our stakeholders to assist them in meeting their efficiency targets and economic goals through these difficult times. As we fortify our business in a saturated market, we are looking at collaborating with stakeholders in 2021 as a means to use technology to circumvent subdued product sales and enhance our product distribution channels.

We believe that digitalisation will assist with cost reduction and increasing the speed of client service while ensuring the safety of our people.

As a prudent financial services company, Bifm has built on its success from the previous year and will carry these new learnings into the year ahead. With the prominence of financial market standards, global standards, risk and compliance are high on our agenda for 2021. During the year, the company complied with all statutory requirements and maintained its status as a financial services provider.

Appreciation

Our appreciation extends to our board members for their wise counsel and invaluable guidance, the management team and all our employees for their hard work and dedication. The spirit of collaboration within Bifm has assisted in restraining the overall impact of COVID-19 on our business. Additionally, we thank all our stakeholders including clients, partners, suppliers and advisors for their ongoing support and input in creating value for our business. We have embraced and continue to embrace the opportunities digital transformation offers both for our employees and for our clients as we continue to improve the stakeholder experience.

Neo Bogatsu
Bifm: CEO

With financial literacy at the core and our drive to instil disciplined saving for long-term investment horizons, Letlotlo is a children's education product and Ya Masa is an investment savings fund for children.

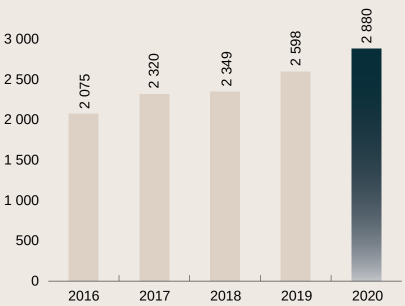
FIVE-YEAR REVIEW

	31 December 2020 P'000	31 December 2019 P'000	31 December 2018 P'000	31 December 2017 P'000	Restated 31 December 2016 P'000
Group consolidated income statement					
Continuing operations					
Net insurance premium income	**2 879 625**	2 597 852	2 349 017	2 320 046	2 074 927
Gross premium income – recurring	**1 635 388**	1 510 609	1 304 936	1 250 581	1 139 267
– single	**1 301 267**	1 140 404	1 044 081	1 100 679	962 768
Insurance premiums ceded to reinsurers	**(57 030)**	(53 161)	–	(31 214)	(27 108)
Revenue from contracts with customers	**108 935**	98 414	107 021	103 075	91 176
Investment income	**67 761**	208 569	142 698	658 193	752 120
Interest income using the effective interest rate	**6 838**	11 165	11 065	–	–
Other interest income	**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	**(436 803)**	55 998	(50 762)	(55 241)	(840 093)
Total revenue	**3 286 743**	3 773 170	3 174 089	3 039 066	2 078 130
Net insurance and investment contract benefits and claims	**(2 058 818)**	(2 622 131)	(2 145 572)	(2 027 157)	(1 104 613)
Policyholder benefits paid	**(1 649 831)**	(1 614 748)	(1 487 101)	(1 374 527)	(1 533 219)
Change in liabilities under investment contracts	**(3 912)**	(421 258)	(191 599)	(64 932)	676 641
Change in liabilities under insurance contracts	**(405 075)**	(586 125)	(466 872)	(587 698)	(248 035)
Expenses	**(819 020)**	(755 980)	(619 231)	(660 458)	(622 819)
Selling expenses	**(424 194)**	(397 221)	(310 895)	(336 295)	(312 255)
Administration expenses	**(374 909)**	(353 675)	(308 336)	(324 163)	(310 564)
Finance cost on leases (IFRS 16)	**(861)**	(1 110)	–	–	–
Impairment losses	**(19 056)**	(3 974)	–	–	–
Profit before share of profit of associates and joint ventures	**408 905**	395 059	409 286	351 451	350 698
Share of profit of associates and joint ventures	**257 268**	229 001	52 871	72 927	224 671
Impairment of associates	**–**	(86 768)	–	–	–
Profit before tax from continuing operations	**666 173**	537 292	462 157	424 378	575 369
Tax expense	**(128 664)**	(98 919)	(95 694)	(76 092)	(100 581)
Profit from continuing operations	**537 509**	438 373	366 463	348 286	474 788
Discontinued operations					
Profit/(loss) for the year from discontinued operations	**–**	2 191	4 069	1 041	524
Profit for the year	**537 509**	440 564	370 532	349 327	475 312
Earnings per share (thebe) – basic	**193**	158	135	127	174
Earnings per share (thebe) for continuing operations	**193**	157	133	126	174
Gross dividends per share (thebe)	**122**	114	143	157	122
Weighted average number of shares in issue ('000)	**276 023**	274 533	274 945	277 919	277 178

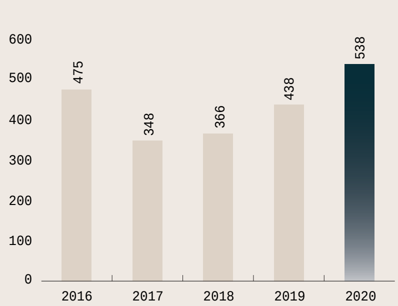
	31 December 2020 P'000	31 December 2019 P'000	31 December 2018 P'000	31 December 2017 P'000	31 December 2016 P'000
Group consolidated statement of financial position					
Property and equipment	**179 261**	154 562	155 320	155 350	156 006
Intangible assets	**99 089**	104 226	99 454	92 273	100 352
Right-of-use assets	**15 514**	20 767	–	–	–
Investments	**16 258 980**	15 799 698	15 091 233	14 789 197	13 110 981
Insurance and other receivables	**284 199**	252 291	304 585	295 667	204 225
Non-current assets held for sale	**–**	–	47 688	54 222	–
Cash deposits and similar securities	**239 637**	162 095	112 844	184 254	819 280
Total assets	**17 076 680**	16 493 639	15 811 124	15 570 963	14 390 844
Ordinary shareholders' equity	**2 984 617**	2 903 345	2 818 565	2 941 557	2 916 515
Non-controlling interest	**25 228**	23 597	22 008	16 823	20 583
Policyholder liabilities	**10 847 636**	10 444 102	12 521 188	12 218 341	10 956 497
– Insurance contracts	**10 847 636**	10 444 102	9 859 345	9 388 540	8 800 323
– Investment contracts	**–**	–	2 661 843	2 829 801	2 156 174
External investors in consolidated funds	**2 519 241**	2 667 763	–	–	–
Deferred tax liability	**19 521**	22 161	13 695	9 702	17 620
Derivatives instrument	**2 400**	5 810	–	–	–
Liabilities classified as held for sale	**–**	–	21 795	15 682	–
Lease liability	**16 858**	21 431	–	–	–
Trade and other payables	**661 179**	405 430	413 873	368 858	479 629
Total equity and liabilities	**17 076 680**	16 493 639	15 811 124	15 570 963	14 390 844
Group statement of cash flows					
Cash generated from/(utilised in) operating activities	**1 292 305**	763 865	557 053	1 206 418	1 168 158
Interest received	**40 341**	133 179	97 323	88 360	69 051
Dividend received from equity investments	**14 947**	108 547	–	–	98 313
Dividend received from associates and joint ventures	**105 969**	73 247	–	–	108 644
Interest expense on leases (IFRS 16)	**(861)**	(1 110)	–	–	–
Tax paid	**(70 666)**	(98 139)	(84 464)	(90 934)	(115 657)
Dividends (paid)/received	**(428 080)**	(370 861)	(186 543)	(155 985)	(342 906)
Cash flow from operating activities	**953 955**	608 728	383 369	1 047 859	985 603
Cash flow (utilised in)/from investing activities	**(873 276)**	(555 501)	(454 779)	(1 682 885)	(1 221 409)
Net cash flows (utilised in)/generated from financing activities	**(4 573)**	(3 976)	–	–	–
Net increase/(decrease) in cash and cash equivalents	**76 106**	49 251	(71 410)	(635 026)	(235 806)
Cash and cash equivalents at the beginning of the year	**162 095**	112 844	184 254	819 280	1 055 086
Cash and cash equivalents at the end of the year	**238 201**	162 095	112 844	184 254	819 280

FIVE-YEAR REVIEW continued

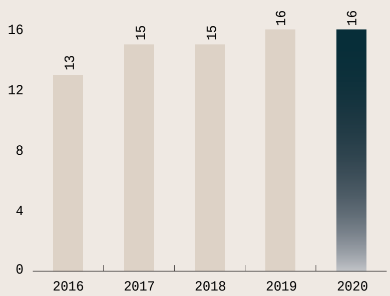
PREMIUM INCOME
(P'million)



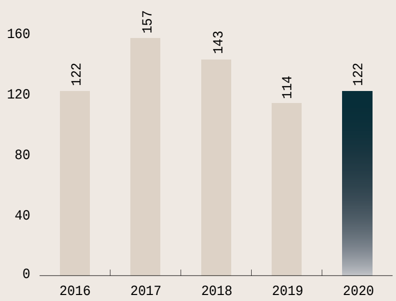
PROFIT AFTER TAX
(P'million)



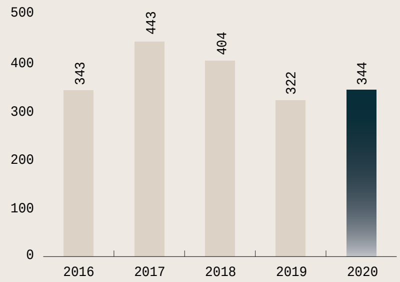
INVESTMENTS
(P'billion)



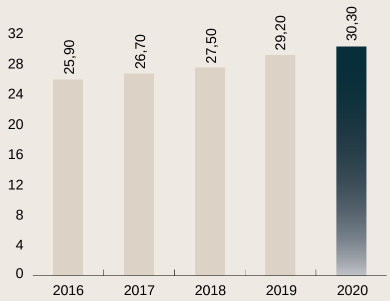
DIVIDENDS PER SHARE
(thebe)



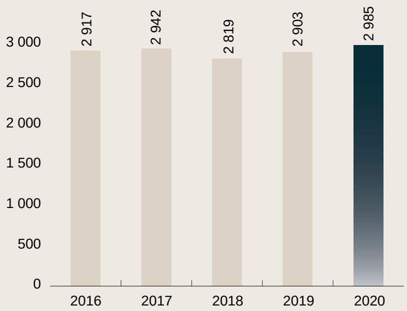
DIVIDENDS PAID
(P'million)



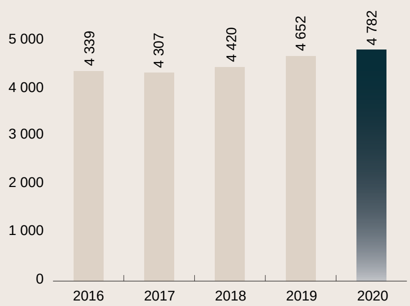
ASSETS UNDER MANAGEMENT
(P'billion)



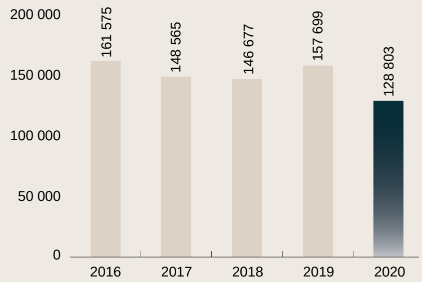
SHAREHOLDERS' EQUITY
(P'000)



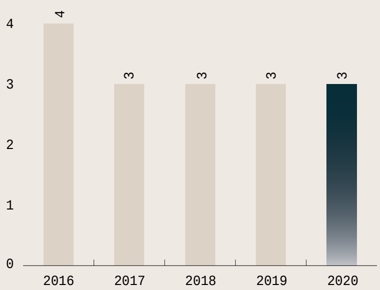
EMBEDDED VALUE
(P'billion)



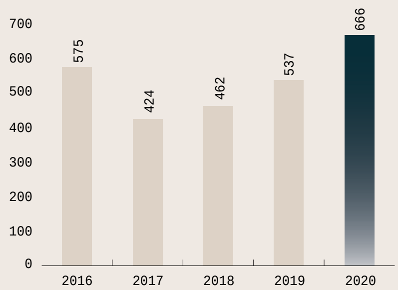
VALUE OF NEW BUSINESS
(P'000)



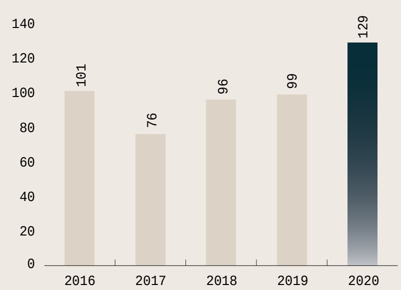
INVESTMENT INTO COMMUNITIES
(P'million)



PROFIT BEFORE TAX
(P'million)



TAX PAID
(P'million)



04
SUSTAINABILITY REVIEW

OUR PEOPLE

Where staff were unable to work from home due to lack of access to the internet or laptops, the business made the necessary arrangements to enable them to perform.

MRS TLOTLO MOOKODI | Executive Head: People Management

Approach to people management

Anchored on the BIHL Group core values, our approach to people management aligns with our greater BIHL strategy of being an employer of choice as evidenced by our ever-evolving employee value proposition.

Our differentiator through this compelling employee value proposition, has created a high-performance and values-driven culture, providing opportunities for personal growth and development.

Our effective talent management programme ensures that we retain key skills within the business; we have also now automated this process resulting in improved efficiency and effectiveness in the selection process.

Training and development

Upskilling our employees to be future-fit is an important part of what we do. We have put a lot of emphasis on leadership development across the business to ensure that managers are able to support and lead their teams effectively. With COVID-19 restrictions and the new normal, these programmes were delivered remotely across the business.

We support our other employees by subsidising certification programmes and professional qualifications. Our training policy encourages self-study and staff continuously seek to improve on their skills through the various training opportunities.

Employee well-being and our response to COVID-19

As soon as the global pandemic became evident, we set in motion rapid response principles to meet the challenge and ensure the well-being, health and safety of our employees. At all times, we were cognisant of providing a conducive work environment notwithstanding challenging conditions. Several policies, among them the pandemic policy, were crafted to support remote working, virtual meetings and related work activities. We assessed which services were deemed essential as well as identified staff that were critical for business continuity. Where staff were unable to work from home due to lack of access to the internet or laptops, the business made the necessary arrangements to enable them to perform.

We conducted a staff survey to appreciate how they were coping and how else they could be supported which provided encouraging feedback, as staff felt that BIHL were guaranteeing their safety and providing support during the pandemic, and that the company was empathetic towards its employees.

Through the employee wellness programme, we continued to provide much-needed psychosocial support to our staff and their families especially during a very challenging year.

Employee diversity and inclusion

We have a good gender balance and diverse leadership teams within the organisation. We provide equal opportunities to all our staff and do not discriminate based on gender, age nor religion.

OUR IMPACTS

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

34,198ℓ	63,024kwh	49,893ℓ
2019: 41,043ℓ	2019: 99,379kwh	2019: 44,646ℓ

Bifm

23,344ℓ	156,859kwh	23,851ℓ
2019: 18,322ℓ	2019: 131,591kwh	2019: 25,736ℓ

BIC and Legal Guard

59,008ℓ	677,734kwh	94,496ℓ
2019: 62,085ℓ	2019: 689,135kwh	2019: 120,197ℓ

Botswana Life

593,528ℓ	2,453,964kwh	97,500ℓ
2019: 712,719ℓ	2019: 1,746,964kwh	2019: 83,313ℓ

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 14 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 P30 million to communities in Botswana.

The BIHL Trust had a challenging year due to COVID-19 as the pandemic hindered the execution of the new strategic pillars. The Trust could not fully pursue its strategic direction as planned for in 2020 due to the pandemic. The year mostly spent engaging with strategic partners, who 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 have been a handful that have not delivered the results we had 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 P3 187 758 during the year, which is a slight improvement from P3 054 973 in 2019. These contributions are based on 1% post-profit tax of the business performance. Total donations amounted to P1 127 601 compared to P2 205 933 in 2019. The Trust's total spend, including administration expenses, was P1 347 815 compared to P2 848 369 in 2019.

Thomas Tlou Scholarship
Amount: P344 141
Frequency: Discontinued
Strategic pillar: Education

Maru-a-Pula School OVC Fund
Amount: P250 000
Frequency: Annually
Strategic pillar: Education

MogwebiQuest
Amount: P270 543
Frequency: Once-off
Strategic pillar: Youth development and empowerment

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 Trust decided to discontinue the BIHL Trust Thomas Tlou Scholarship which was set up in 2012. The programme has awarded scholarships to 28 recipients over the years, who have completed and gone on to make meaningful contributions to their communities. The Botswana Government provides free education up to degree level and the scholarship programme was set up to support deserving students who wanted to further their studies at a master's degree level but did not have the financial means.

The BIHL Trust values investment in all aspects of life be it financial, assets or human capital (our people). We strongly believe in the power of education and we are motivated by the Botswana Government's active involvement in the education of many across the country. This is testament to the country's adage 'thuto ke bosw', which means education is a treasured inheritance.

During the year under review, three recipients graduated. We believe that with the new alignment to the BIHL Group strategy, it was important to review other ways of making an impact in our communities.

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 P1,7 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 (MIT) and Stanford University (USA).

Youth development and empowerment

Our focus on youth development and empowerment saw the BIHL Trust deliver the first-ever gaming app in Botswana. MogwebiQuest is a mobile gaming app that aims to promote financial literacy in insurance, investment, short-term insurance and legal services. The mobile gaming app is a first for Botswana, bridging the gap between technology, insurance and financial literacy through an interactive and entertaining platform.

MogwebiQuest is a product of the Trust's #AppForChange competition which began in 2018 and culminated with the Power Circle Group emerging as the 2018/2019 champion. The group won the opportunity to develop a gaming app that addresses business needs while generating youth interest in investment, insurance, short-term insurance and legal services. Power Circle Group is a developer team that is housed under the Botswana Innovation Hub incubation programme where they receive technical advisory services, business advisory and project management skills. Through this interactive platform, the gaming app educates users on efficiently running a successful business while testing user's knowledge on financial literacy. It is readily available in Play and App stores.

The Trust has a responsibility to contribute towards youth development to ensure that future generations are given every opportunity to be empowered and supported in any and every way.

This initiative was a great step in that direction and to finally harvest the fruits of our collaboration and unveil an avant-garde product such as MogwebiQuest.

BIHL IN ACTION

#BattleOfTheCEOs at 'the cook-off'

The BIHL Group participated in the cook-off competition considered to be #BattleOfTheCEOs. Group CEO, Catherine Lesetedi, along with Ronald Samuels of Botswana Life and Newton Jazire of BIC, took part in the challenge to establish who could make the best Botswana beef. Twitter users were very much engaged in the competition as Ronald Samuels walked away as the winner.

All three businesses were able to raise a combined P15 000 that was directed towards Cancer Association Botswana.

In addition, local foods and attire were present from Catherine Lesetedi's leteisi chef jacket to the wide array of local ingredients including local fruit and vegetable vendors' products and brands such as Sescenti Salts, Yamikani Foods, St Louis Lager and Earth Vitamins beef in support of the #PushaBW cause.

Supporting local artists

The group remains committed to playing a long-term role in celebrating, preserving and growing the local arts and culture space in Botswana through its support of The Roving Gallery initiative, in collaboration with Thapong Visual Arts Centre.

The Roving Gallery aims to accelerate visual arts in Botswana, with artwork displayed across the BIHL Group premises as well as select occasional exhibitions for greater exposure and marketing of the incredible work. Since inception, the BIHL Roving Gallery has featured artists including:

- Veraya Edwards
- Ditshupo Mogapi
- Velalias Ndaba
- Mokwaledi Gontshwanetse
- Kentse Bogatsu
- Reggie Bakwena
- Thabo Keorapetse
- Felicity Male
- Tuelo Pule
- Thabiso Kefalotse
- Wilson Ngoni

The intention is to highlight local talent and professionalise the industry so that visual art can develop further into a full-time professional employment opportunity providing a substantive and meaningful income for Batswana.

Excellence in leadership

Bifm CEO, Neo Bogatsu, received a coveted award at the Sanlam Group CEO Awards 2020 at a virtual ceremony held in September 2020. The Sanlam Group CEO Awards recognise excellence across the Sanlam Group, of which the BIHL Group is a member. The platform shines a light on those who create meaningful and valuable solutions for the group and all its stakeholders. Neo was nominated by the BIHL Group CEO, Catherine Lesetedi, for her contribution to engineering legacies for Batswana through Bifm and the wider group, and for her contribution to the financial services ecosystem of Botswana.

Marking a 45-year legacy

The group commemorated its 45th anniversary in 2020 since first opening its doors to serve Botswana in November 1975, and it continues to enhance its footprint across the financial services space. The milestone was duly recognised with the ceremonial bell ringing at the BSE in November 2020.

BIHL GROUP 45 YEARS 1975 2020

A proudly Botswana organisation, the BIHL Group has delivered great strides in its growth from when it sold its very first life policy in 1977 to its BSE listing in 1991 and to present day 2020. BIHL Group now offers a diverse range of products and services varying from short-term insurance to asset management services and is the largest financial services group in the country.

Through its three key subsidiaries – Botswana Life, Bifm and BIC – as well as its associates – Letshego, Nico Malawi and FSG – the group has been privileged to achieve unrivalled market-leading growth over the years, serving generations of Batswana and engineering legacies across the country for 45 golden years.

We stand proudly as a nation that has come so far and that still has more to do, more to show and more to deliver.
We are #45YearsStrongerTogether.

On 7 December 2020, Bifm hosted an awards ceremony in place of the Bifm Traditional Music Expo, in partnership with Footprints Advertising, which could not be held due to COVID-19 restrictions. Bifm has held this annual event for 17 years. Bifm recognised and celebrated the talent in Botswana's vibrant creative arts industry with a token of appreciation as a way of demonstrating the commitment to the local music industry, and the challenges artists experienced due to COVID-19. Ten local artists, who have participated in the Traditional Music Expo since the inception of the event, were each awarded P10 000.

Botswana Life listed among most admired financial services brands

On 11 June 2020, Botswana Life was listed as the fourth most admired financial services brand in Botswana by Brand Africa 100.

Brand Africa 100 is a survey that lists Africa's best brands across 25 countries spanning all five economic regions. This initiative aims to provide an objective metric for brands that Africans admire and which drive the continent's image and reputation. The survey is conducted by Brand Africa research partner, Geopoll.

Botswana Life kicks off new season of Money Life

On 15 September 2020, Botswana Life premiered its fourth season of the financial literacy show, Money Life.

Hosted by financial expert, Lorato Akpata, every Tuesday at 13h30 on RB2, the show covers a variety of topics centered around financial literacy and insurance advisory matters. This comes as part of the legacy company's efforts to empower Batswana to make sound financial choices to secure their future and that of their loved ones.

Celebrating 45 years of Life and More, with Botswana Life

1 November 2020 marked the 45th anniversary since Botswana Life opened its doors to Batswana. We celebrated 45 years of heritage and making a meaningful difference in the lives of Batswana with a series of activities and celebrations taking place across the business and our branches.

Botswana Life continues to play a strong role in driving socio-economic prosperity. Our investment in Botswana's economy is proportionate to our size and success. We proudly own our heritage and own our future, because we have the passion, heart, resolve and expertise to deliver on this.

Botswana Life launches Retirement Annuity Fund

Botswana Life continues to cement its purpose, working to empower Batswana through insurance and sound financial advisory solutions, most recently with regard to retirement annuities. On 19 October 2020, Botswana Life launched the Botswana Life Retirement Annuity Fund, an umbrella fund now housing all previously existing retirement policies, and which works to provide even greater client delight.

The new fund is a welcome development in bringing even greater transparency through a dedicated fund administrator, increased opportunity for preservation, and greater agility and efficiency, while maintaining best practice and the utmost client confidentiality and security protocols.

BIC celebrates 45 years of Making Life Better

Since its establishment in the country, BIC has immensely contributed to the country's economy through employment creation, developing the local financial services sector and insuring iconic private and public properties.

BIC's longevity, responsiveness and drive have been instrumental in improving the livelihoods of Batswana. This legacy has earned BIC the Best General Insurance Company in Botswana by the Global Banking and Finance Awards 2021.

BIC welcomes a new look

At BIC, 'life begins at 45.' As one of the insurance pioneers in the country, BIC has grown to be an industry leader and continues to blaze the trail in the industry while working closely with Batswana.

BIC makes a difference

BIC sponsored the Women Riders World Relay Event in support of sports tourism, rider motorist safety and riding as a sport and mode of transport.

BIC hosted a Father's Day Competition in a question and answer format in honour of all fathers. Winners were awarded hampers courtesy of BIC.

BIC making life better for teachers in Kanye through project 24/7 seminar – teachers gathered of Kanye Education Centre to share ideas on how to assist students to improve their academic performance.

CEO of BIC Mr Newton Jazire, took part in the Captains' Day Golf fundraising initiative which was held at the Gaborone Golf Club.

BIC sponsored LKC Jaguars Rugby Club with P66 000 for the upcoming pre-season rugby festival in South Africa.

As part of its CSR pillars, BIC has boosted two beneficiaries, Autism Botswana and The Broadcasters Organisation, with P50 000 and P150 000, respectively. #MakingLifeBetter

In their efforts to serve and protect all animals in Botswana against cruelty and to uplift their welfare and that of the communities they live in, BIC visited Botswana Society for the Prevention of Cruelty to Animals BSPCA Gaborone to show support towards animal protection. #MakingLifeBetter

The showjumping competition, sponsored by BIC and SATIB, saw the Botswana Insurance Company, Executive Head: Sales and Marketing, William Surmon, handing over the winner's shield for the six jump challenge.

The Broadcasters Organisation today held an induction workshop for junior secondary schools that are to adopt the Destiny Shapers programme this year held by The Broadcasters Organisation.

BIC provided free COVID-19 bereavement cover to all BIC policyholders as well as premium deferrals and discounts to affected qualifying clients and financial relief for intermediaries.

Utilisation and Integration of ICT. Lorato Barobi, a teacher at Tsogang Primary, shared her experience with the BIC Matshwao System, together with its relevance in the 21st century. #NewShow

BIC partnered with Autism Botswana to provide the Ministry of Basic Education with specially developed learner kits to assist learner's with autism. The official handover ceremony took place at the offices of the Ministry of Basic Education.

05
ACCOUNTABILITY

ETHICAL LEADERSHIP

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 92 to 97.

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

Governance structure

The board

Batsho Dambe-Groth *(Group Chairman)***
Catherine Lesetedi *(Group CEO)*
Kudakwashe Mukushi *(Group CFO)*
Chandra Chauhan *(Botswana Life Chairman)***
John Hinchliffe *(Bifm and Bifm Unit Trust Chairman)***
Andrew Cartwright *(Audit and risk committee Chairman)***
Kobus Vlok^
Lieutenant General Tebogo Carter Masire**
Mahube Chilisana Mpugwa**
Nigel Suliaman^#

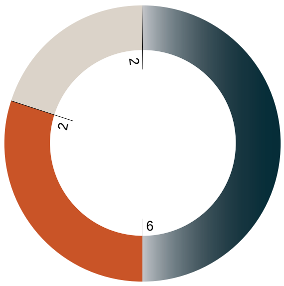
** *Independent non-executive*
^ *Non-executive*
# *Appointed June 2020*
~ *Appointed December 2020*

	Audit and risk committee	Human resources committee	Nominations committee	Independent review committee
	Refer to pages 98 and 99 for the full report	*Refer to page 85 for more detail*	*Refer to page 85 for more detail*	*Refer to page 85 for more detail*
Members	Andrew Cartwright *(Chairman)* Chandra Chauhan John Hinchliffe Philip van Rooijen	Kate Maphage *(Chairman)* Batsho Dambe-Groth Mahube Mpugwa	Chandra Chauhan *(Chairman)* Batsho Dambe-Groth	John Hinchliffe *(Chairman)* Chandra Chauhan
Independent	3/4	3/3	2/2	2/2
Focus areas	• Reporting (financial and integrated) • Audit matters (internal and external) • Risk management, information and technology governance • Information and cybersecurity	• Remuneration strategy and policy • Human capital management	• Succession planning • Board evaluations • Nomination matters (structure, size and composition)	• Related party transactions

The board

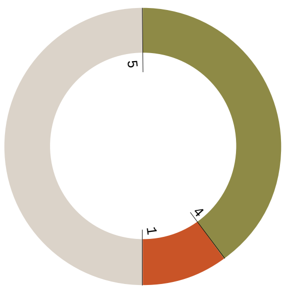
The unitary board consists of 10 directors of whom six are independent non-executives. The Chairman is committed to ensuring the overall effectiveness of the board and that it achieves the appropriate composition and balance of directors. The magnitude and complexity of the group influences our board's 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 INDEPENDENCE



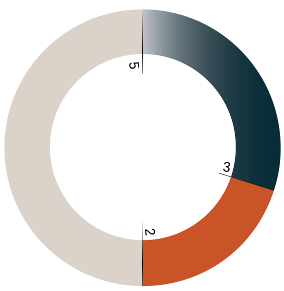
- INDEPENDENT DIRECTORS
- NON-INDEPENDENT DIRECTORS
- EXECUTIVE DIRECTORS

BOARD AGE DIVERSITY



- 40 – 49 YEARS
- 50 – 59 YEARS
- 60 – 69 YEARS

BOARD TENURE



- 0 – 2 YEAR
- 3 – 5 YEARS
- OVER 5 YEARS

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, 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 FY20 and FY21

What kept the board busy this year	What will keep the board busy in FY21
• 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 and interim 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 AML/CFT and P policy	• Focus on digital transformation and innovation • Ensuring strong business performance • Key focus areas carried over from 2020

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.

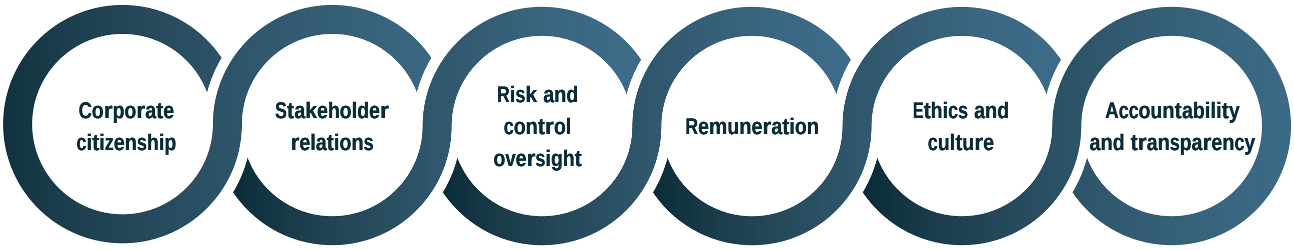
The board's primary responsibilities

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 management team comprises the group CEO, the group CFO and two CEOs from BLIL and Bifm, respectively.

To enable the board to use its time most effectively and efficiently, supported by the group Company Secretary, it maintains a scheduled programme of meetings and a rolling agenda. 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.

Oversight priorities



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)*	4/4	n/a	4/4	1/1
Catherine Lesetedi^ *(Group CEO)*	3/4	n/a	n/a	n/a
Kudakwashe Mukushi^ *(Group CFO)*	4/4	n/a	n/a	n/a
Chandra Chauhan** *(Botswana Life Chairman)*	4/4	4/4	n/a	1/1
John Hinchliffe** *(Botswana Life Chairman)*	4/4	4/4	n/a	n/a
Andrew Willis Cartwright**	4/4	4/4	n/a	n/a
Kate Maphage**	n/a	n/a	4/4	n/a
Kobus Vlok**	4/4	n/a	n/a	n/a
Lieutenant General Tebogo Carter Masire**	4/4	n/a	n/a	n/a
Mahube Chilisana Mpugwa**	4/4	n/a	4/4	n/a
Nigel Suliaman*	2/4	n/a	n/a	n/a
Philip Van Rooijen*	–	4/4	n/a	n/a

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

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 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 14 and 15.

Board committees

Refer to pages 98 and 99 for the audit and risk committee report.

Nominations committee	
Members Chandra 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.
Independent review committee	
Members John Hinchliffe *(Chairman)* Chandra 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.
Human resources committee	
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.

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. Andrew Cartwright, Kobus Vlok and Lieutenant General Tebogo Masire 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 ERM 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. See the risk management report on page 129 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 be 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. See stakeholder engagement on page 34 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. 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 are 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 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.

Remuneration

The board ensures our remuneration principles and practices are designed to deliver remuneration that is competitive, fair, incentivises performance, assists in retaining talent, reflects regulatory requirements and is aligned with risks as well as the conduct expectations of the group.

Remuneration packages

The remuneration package for executive directors includes a basic salary, a variable performance-linked payment and an allocation of share options. In line with BIHL's remuneration philosophy and determined remuneration principles, the human resources committee reviews remuneration annually after evaluating each executive director's performance.

The board reviews and approves the fee structure for non-executive directors as recommended to it by the human resources committee, which is reviewed annually with the assistance of external service providers. The committee takes cognisance of market norms and practices as well as the additional responsibilities placed on board members by new Acts, regulations and corporate governance guidelines.

The board recommends the fee structure for the next year to BIHL's shareholders for their approval at the AGM. Non-executive directors receive an annual retainer for their services. In addition, a sitting fee is paid for attending and contributing to board and subcommittee meetings. BIHL pays for all travel and accommodation expenses in respect of board and subcommittee meetings.

Disclosure of individual directors' emoluments

Name	Annual retainer	Board meeting committee	Audit and risk committee	Human resources committee	Subsidiary boards	Nominations committee	Investment committee	Credit committee	Other committee/ meetings	Total
B Dambe-Groth *(Chairman)*	–	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
N Suliaman*	–	38 588	–	–	95 000	–	143 076	107 276	–	383 940
K Vlok*	65 000	77 176	–	–	80 000	–	–	–	–	222 176
Total	**390 000**	**976 644**	**540 452**	**56 700**	**565 000**	**68 250**	**250 352**	**250 352**	**125 875**	**3 223 625**

* *The fees are paid to the Sanlam Group and not the 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 2020. 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 Q4 2020. 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. They 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 regards 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 BLIL. 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 as well as all the 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 his or her 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 29 to 33.

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 (CAP42:10).

Internal audit

BIHL's internal audit function is co-ordinated 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's compliance function facilitates the management of compliance through the analysing 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 risk 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 of Weapons of Mass Destruction 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 2021 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™

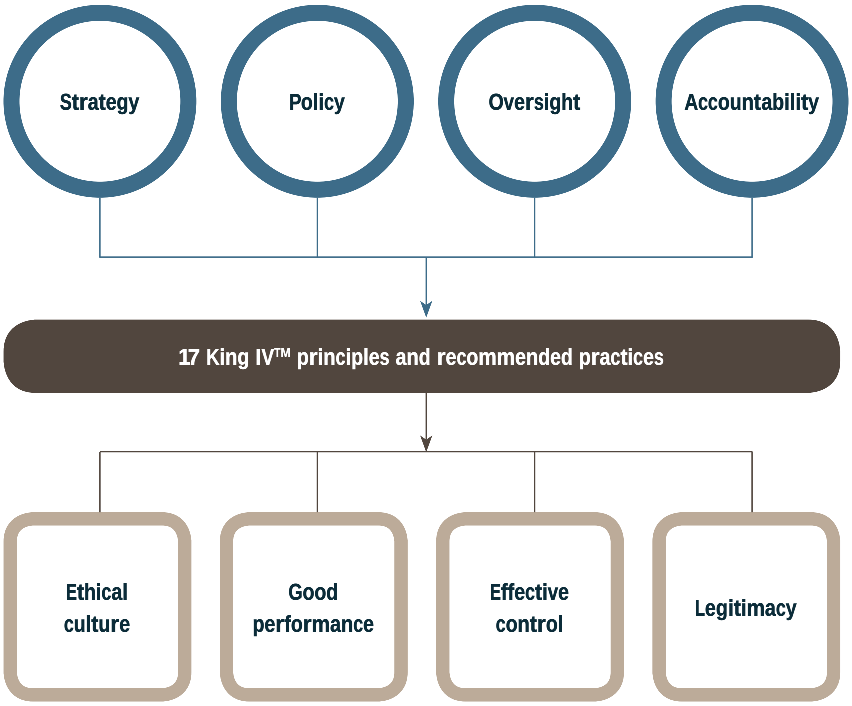
With the updated King IV™, organisations have had to make adjustments to align to best practice. BIHL has been very proactive on this, with the result being that we are a lot further down the road to King IV™ alignment than many other organisations of similar size.

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 the 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 92 to 96 for our application of King IV™.

Governing body responsibilities at BIHL



KING IV™ APPLICATION

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 80 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 during the COVID-19 period by approving the remote working policy, rapid response plan and pandemic policy. This will continue to be the focus going forward to ensure that transmission rates among staff are kept to a minimum. The board approved a relief package totalling P16 million that went towards COVID-19 relief-related activities. P4,5 million was paid towards the Government COVID-19 Relief Fund while some of the funds were paid towards financial support of intermediaries. The board also ensured that employees' jobs are protected irrespective of the difficult trading conditions.

Principle from King IV™	Application of the principle
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 84. The board carried out annual assessments on its effectiveness and is satisfied that it has fulfilled its responsibilities in accordance with its charter.

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. During the year under review, the chairpersons of the two subsidiary boards were swapped to give new insights and fresh input and guidance. 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 Chairperson of the board is an independent non-executive member. The Chairperson's role and responsibilities are documented in the board charter and the tenure of the Chairperson 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 Chairpersons of each of the committees or a member nominated by the Chairperson 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 Chairperson . A consolidated summary of the results of the process is reported to the full board by the Chairperson. 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 2020 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 contribute 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; The nature and extent of risks and opportunities that BIHL is willing to take are outlined in the group risk appetite, which is disclosed on page 32.
Principle 12 **The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives**	Information technology (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.

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 Chief Financial Officer 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.
Principle 17 **The governing body of an institutional investor company should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests**	The board exercises oversight responsibility, rights and obligations through its elected representatives in the various companies in which it has invested. The BIHL board has the ultimate responsibility of ensuring that BIHL promotes good governance by investing responsibly. The board achieves this through its management and governance structures at group and operational level. The governance structures have the responsibility of ensuring that BIHL's investments are managed in accordance with approved policies and authorised investment mandates. Furthermore, the board ensures that these governance practices promote responsible investment, achieve good governance and promote an ethical culture while enhancing effective control, good performance and legitimacy.

AUDIT AND RISK COMMITTEE REPORT

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 84.

MR ANDREW CARTWRIGHT | Audit and risk committee Chairman

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

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 2020

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 indeed 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 the legislation. Processes have been put in place to ensure that all new policies written are compliant with requirements. The committee monitored management efforts to ensure compliance of the more than 300 000 existing policyholders and is pleased to have witnessed significant improvements in levels of compliance. Focus continues to be on ensuring that all client information will be kept up to date in line with regulatory requirements.
- 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: following the review of the compliance maturity status of the group in 2019, the committee approved the revised enhanced compliance governance documents and approved the various compliance plans in the review year. In 2020, management utilised the compliance risk management plans to focus on the high-risk areas to ensure that the group adheres to its commitment to a zero-tolerance culture to non-compliance.

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; and
- Management's strategy and actions to improve risk maturity in subsidiaries and associates.

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; and
  - Valuation of investment property and investments in unlisted property funds – special emphasis was placed on the impact of COVID-19 on the valuations.

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

Andrew Cartwright
Audit and risk committee Chairman

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ANNUAL FINANCIAL STATEMENTS

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 (BIHL or the group) for the year ended 31 December 2020.

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 2020 of P538 million (2019: P440 million). The results improved over last year as in the comparative period as there was a net impairment of P86 million in relation to the group's investment in the Letshego and Nico Holdings PLC entities. Shareholders' equity as at 31 December 2020 was P3,009 billion (2019: P2,963 billion). The growth in net asset value was negatively impacted by P70 million foreign translation losses coming from Letshego's South African Rand-denominated subsidiaries as the Rand weakened against the Pula during the year. Further details regarding the group's results and prospects are included in the financial review in the integrated annual report.

Stated capital

The issued and fully paid share capital as at 31 December 2020 was 282 370 652 ordinary shares (2019: 282 370 652).

Dividends

A gross interim dividend of 44 thebe (2019: 44 thebe) per share was declared during the year. The directors propose a final dividend of 65 thebe (2019: 59 thebe) per share and a special dividend of nil thebe (2019: 11 thebe), bringing the total dividend for the year to 141 thebe per share (2019: 114 thebe per share).

Directors' shareholdings

The aggregate number of BIHL shares held directly or indirectly by directors of the company was 339 433 (2019: 250 041). 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

B Dambe-Groth	*Chairman*
C Chauhan	
J Hinchliffe	
M Mpugwa	
K Vlok	
A Cartwright	
Lieutenant General T Masire	
N Suliaman	*(appointed 23 June 2020)*
A Roux	*(resigned 5 March 2020)*
K Mukushi	*Group Chief Financial Officer*
C Lesetedi	*Group Chief Executive Officer*

Company Secretary and registered address

H Ndzinge
Plot 66458, Block A
3rd Floor
Fairgrounds Office Park
Gaborone, Botswana
PO Box 336
Gaborone, Botswana

Independent auditor

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

Statutory actuary

Edwin Splinter

Bankers

Barclays Bank of Botswana Limited
Bank Gaborone Limited
Bank of Baroda (Botswana) Limited
Capital Bank Limited
First National Bank of Botswana Limited
Stanbic Bank Botswana Limited
Standard Chartered Bank Botswana Limited
BancABC

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 International Financial Reporting Standards (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 pages 109 to 223 were authorised for issue by the board of directors on 3 March 2021 and were signed on their behalf by:

Batsho Dambe-Groth
Chairman

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 223, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate income statements, statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Botswana Insurance Holdings Limited as at 31 December 2020, and of its consolidated and separate financial performance and of its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Insurance Industry Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with other ethical requirements that are relevant to our audit of the consolidated financial statements in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

Key Audit Matter	How the matter was addressed in the audit
1. Valuation of policyholder liabilities under insurance contracts (Consolidated financial statements) Botswana Insurance Holdings Limited (the Group) has policyholder liabilities under insurance contracts stated at P10,8 billion as at 31 December 2020 (2019: P10,4 billion) representing 77% (2019: 77%) of the Group's total liabilities. We considered the valuation of policyholder liabilities under insurance contracts to be a key audit matter due to the events explained below. Life insurance actuarial assumptions and methodologies reflected in policyholder liabilities are subject to a considerable level of judgement. The operational assumptions reflected in policyholder liabilities are informed by actual experience, market experience and practice, expectations as to future trends, events and or outcomes. In the current financial period, the following updates to the model and assumptions had a significant impact on the final valuation of the policyholder liabilities under insurance contracts: • The inputs into the model were updated to reflect the current economic environment. Expense inflation increased from 3,5% to 4,5% at December 2020 which directly impacted the asset class returns. • In the current year, maintenance expense assumptions were updated to reflect the latest expectations on future costs. • The Mompati & Mmoloki actuarial products escalation take up, the withdraw rate assumptions, the Mmoloki & Annuitant mortality assumptions including the Group business credit loss ratios were updated to reflect changes in the operating environment. • Updates were made to the expense allocation model to align costs with changes in the operating environment at the subsidiary level. A COVID-19 lapse reserve was set up during the year. The purpose of the reserve is to allow for the expected impact of the COVID-19 pandemic on lapses, as it is expected that COVID-19 will have a negative impact on lapses due to the subdued economic activity. Since the lapse assumptions are currently based on pre-COVID-19 data, BIHL Group have set up the COVID-19 lapse reserve to account for the expected increase in lapses as a result of COVID-19. Data is a key input into the valuation process. The calculation of insurance contract liabilities has a number of inputs, which are reliant on various processes and systems for accurate and complete data. Significant audit attention is spent on validating the data. Refer to the 2020 section of the accounting policies, Note 5 – Significant accounting judgements, estimates and assumptions of the Group financial statements and Note 8 – Policyholder liabilities of the Group financial statements.	The following audit procedures, amongst others, were executed with the assistance of the EY actuarial specialists: • We assessed the valuation methodology and assumptions against the latest actuarial guidance, legislation, regulatory, financial reporting requirements and approved company policy. • We assessed the key inputs (the Mompati & Mmoloki actuarial products escalation take up, the withdraw rate, the Mmoloki & Annuitant mortality and the maintenance expense assumptions) in the model by comparing to economic conditions and industry norms. • We assessed management's "experience investigation" results in relation to the change in the mortality basis and evaluated the impact on the policyholder liabilities under insurance contracts relating to annuities. • We evaluated the changes to the economic assumptions of the long-term inflation rate and the discount rate for the policyholder insurance contract liability by assessing management's rationale for the changes made and comparing to industry standards. • We evaluated the key sources of profit and loss and assessed management's analysis of movements in the policyholder liabilities under insurance contracts, and tested large and unexpected movements. • We considered the level of margins held in the policyholder liabilities under insurance contracts, management's justification for holding these margins and how these will be released in the future. • Where manual adjustments were applied to the policyholder insurance contract liabilities, we assessed the nature of the adjustments by reviewing approvals, supporting documentation and management explanations. • We evaluated the key controls over management's collection, extraction and data validation processes, which included testing of the reconciliations between the policy administration systems to the model point file system. • We evaluated the updates made to the expense allocation model by assessing management's rationale for the changes made. • We evaluated the adequacy of the COVID-19 lapse and mortality reserves as well as the reasonableness of the key assumptions supporting the reserve. • We assessed the adequacy and completeness of the disclosures regarding the policyholder liabilities under insurance contracts in the consolidated financial statements to determine whether they were in accordance with mainly IFRS 4 – *Insurance Contracts*

Key Audit Matter	How the matter was addressed in the audit
2. Valuation of investment in associate – Letshego Holdings Limited (Consolidated financial statements) The valuation of the investment in Letshego Holdings Limited continues to be a key audit matter given the economic and regulatory environments in which the entity operates. Letshego is listed on the Botswana Stock Exchange and operates in Botswana with subsidiaries in a number of African countries. An impairment assessment exercise was carried out by management to determine whether the carrying amount of the investment exceeds its recoverable amount, with the recoverable amount derived from the higher of a discounted cash flow (DCF) valuation and the company's fair value. Assumptions in the DCF valuation model, such as growth rates and risk discount rates requires significant management judgement. During the year, changes were made on three key assumptions: • The inflation rate due to the effect of changes in the economic environment; • The effective tax rate as a result of changes in the financial performance of the entity; and • The risk-free rate. These have high sensitivity to the ultimate DCF valuation amount. Using the discounted cash flow method, Letshego Holdings Limited was valued at P1,204 billion in the current year, compared to P1,185 billion in the prior year. The carrying amount stood at P1,178 billion compared to P1,132 billion. Accordingly, the above audit matter is considered a Key Audit Matter. Refer to Note 5 – Significant accounting judgements, estimates and assumptions of the Group financial statements and Note 4.5 – Interest in associates and joint ventures of the Group financial statements.	The audit team, together with the EY valuation experts, performed the following procedures, amongst others: • We assessed the valuation methodology and assumptions applied by management to value the investment in the associate. This involved an assessment of the valuation methodology against industry norms and the asset type; an evaluation of the expectations of future cash flow projections; an evaluation of the accuracy of management's forecasts; and a comparison of current performance to forecasted performance. • We evaluated management's forecast of the Letshego group based on our understanding of the locations in which the Letshego group operates. • We assessed the mathematical accuracy of the valuation models by recalculating the DCF valuation. • We evaluated the cash flow projections used for valuation against the associate's most recent financial performance and assessed the inputs into the cash flow projections. • We evaluated the long-term growth rates used to extrapolate the cash flows, the risk discount rates, the risk-free rate, the tax rate and the duration to discount in perpetuity assumptions. We compared these to available industry, economic and financial data, and to market outlook. • We performed a sensitivity analysis to assess the impact of the changes to the inputs on the valuation of the investment in associate. • We assessed the adequacy and completeness of the disclosures regarding the associates in the consolidated financial statements to determine they were in accordance with mainly IAS 3 – *Impairment of Assets* and IFRS 12 – *Disclosure of Interests in Other Entities.*

Key Audit Matter	How the matter was addressed in the audit
3. Valuation of investment property and investments in unlisted property funds (Consolidated financial statements) Investment properties and investments in unlisted property funds were stated at fair value of P1,066 billion as at 31 December 2020 (2019: P851 million). During the current financial year the investment property values were determined by using valuation methods (sales comparison, depreciated replacement cost, income capitalisation, discounted cash flow) and data inputs (future rental cash inflows, capitalisation rates, direct comparable sales price per square metre, rent escalation rates, building cost rates, discount rates) as set out in Note 4.4 – Investment property and investments in unlisted property funds. These valuations were performed by accredited independent valuers. Significant judgement is required to determine the fair value of investment property, especially with respect to the determination of unobservable inputs namely the discount rate and the long-term growth rates utilised. As a result significant audit attention is spent on and this and we consider this to be a key audit matter. Refer to Note 7 – Summary of significant accounting policies of the Group financial statements and Note 4.4 – Investment in property and investments in unlisted property funds of the Group financial statements.	The audit team, together with the EY valuation experts, performed the following procedures, amongst others: • We evaluated management's internal and external valuer's competence, capabilities and objectivity. • We evaluated the appropriateness of the valuation approaches and methodologies used by management's internal and external valuers against IFRS requirements and industry norms to confirm that the methodologies were appropriate under the circumstances. • We tested the arithmetical accuracy of the investment property valuation calculations, budgets and cash flows and vouched the source data used. • We evaluated management's considerations of the impairment indicators of the investments. We reviewed the underlying assumptions (the implied capitalisation rate, the growth assumptions), supporting the DCF valuation model and assessed their reasonableness against entity specific, historical experience, property market circumstances and achievability and sustainability. • We assessed that the valuations were performed at the correct and appropriate date. • We also assessed the adequacy of the disclosures in Note 4.4 Investment property and investments in unlisted property funds in accordance with the requirements of mainly IFRS13 – *Fair Value Measurement* and IAS 40 – *Investment Property.*

Other Information

Other information comprises the information included on page one to five of the document titled "Botswana Insurance Holdings Limited Annual Financial Statements for the year ended 31 December 2020", which includes the Report of The Independent Actuary and the Director's Report as required by the Companies Act (CAP 42:01), which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The directors are responsible for the other information. Other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Insurance Industry Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or company or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group and company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst + Young

Ernst & Young
Practicing member: Thomas Chitambo

Partner
Certified auditor
Membership number: 20030022

Gaborone

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020

		GROUP		COMPANY	
	Note	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Assets					
Property and equipment	2	**179 261**	154 562	**2 873**	3 414
Intangible assets	3	**99 089**	104 226	**784**	1 029
Right-of-use assets	2.2	**15 514**	20 767	**11 047**	13 256
Investment property	4.4	**10 160**	121 615	**–**	–
Investments in associates and joint ventures	4.5	**1 713 994**	1 664 623	**266 711**	266 711
Long-term reinsurance assets	8.5	**9 259**	7 718	**–**	–
Interest in subsidiaries	4.5	**–**	–	**112 858**	90 891
Financial assets at fair value through profit or loss		**14 489 435**	13 955 742	**–**	–
Bonds (Government, public authority, listed and unlisted corporates)	4.1	**9 282 087**	8 608 179	**–**	–
Investment in property funds and companies	4.4	**1 055 880**	729 294	**–**	–
Equity investments (local and foreign)	4.2	**2 042 429**	1 784 202	**–**	–
Money market instruments	4.1	**2 109 039**	2 834 067	**–**	–
Loans at amortised cost	4.3	**36 132**	50 000	**–**	–
Insurance and other receivables	5	**284 199**	247 033	**4 494**	23 001
Tax receivable	17	**–**	5 258	**382**	216
Related party balances	20	**–**	–	**30**	777
Cash, deposits and similar securities	23	**239 637**	162 095	**68 412**	73 999
Total assets		**17 076 680**	16 493 639	**467 591**	473 294
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	**243 967**	223 186	**31 449**	36 392
Retained earnings		**2 585 714**	2 561 131	**240 612**	229 454
Total equity attributable to equity holders of the parent		**2 984 617**	2 939 253	**426 997**	420 782
Non-controlling interests	10	**25 228**	23 597	**–**	–
Total equity		**3 009 845**	2 962 850	**426 997**	420 782
Liabilities					
Long-term policyholder liabilities	8	**10 847 636**	10 444 102	**–**	–
External investors in consolidated funds	9	**2 519 241**	2 667 763	**–**	–
Derivatives instrument	8.7	**2 400**	5 810	**–**	–
Deferred tax liability	11	**19 521**	22 161	**–**	–
Lease liability	2.3	**16 858**	21 431	**12 568**	14 111
Insurance and other payables	12	**625 907**	353 753	**27 081**	22 956
Tax payable	17	**31 736**	–	**–**	–
Related party balances	20	**3 536**	15 769	**945**	15 445
Total equity and liabilities		**17 076 680**	16 493 639	**467 591**	473 294

INCOME STATEMENTS
For the year ended 31 December 2020

		GROUP		COMPANY	
	Note	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Revenue					
Net insurance premium income	13	**2 879 625**	2 597 852	**–**	–
Gross insurance premium income		**2 936 655**	2 651 013	**–**	–
Insurance premium ceded to reinsurers		**(57 030)**	(53 161)	**–**	–
Revenue from contracts with customers	13.1	**108 935**	98 414	**–**	–
Investment returns		**298 183**	1 076 904	**417 189**	384 759
Investment income*	14.3	**67 761**	208 569	**413 396**	371 585
Interest income using the effective interest rate (EIR)	14.1	**6 838**	11 165	**2 397**	2 417
Other interest income	14.2	**658 991**	797 700	**–**	–
Profit on sale of subsidiary	4.6	**1 396**	3 472	**1 396**	10 757
Net (loss)/gain from financial assets held at fair value through profit or loss	14.4	**(436 803)**	55 998	**–**	–
Total revenue		**3 286 743**	3 773 170	**417 189**	384 759
Net insurance and investment contract benefits and claims		**(2 058 818)**	(2 622 131)	**–**	–
Gross insurance benefits and claims	14	**(1 689 071)**	(1 649 328)	**–**	–
Reinsurance claims	14	**39 240**	34 580	**–**	–
Change in liabilities under investment contracts	8.1	**(3 912)**	(421 258)	**–**	–
Change in policyholder liabilities under insurance contracts	8.1	**(403 534)**	(584 757)	**–**	–
Change in contract liabilities ceded to reinsurers	8.6	**(1 541)**	(1 368)	**–**	–
Expenses		**(819 020)**	(755 980)	**(31 559)**	(28 531)
Sales remuneration		**(424 194)**	(397 221)	**–**	–
Administration expenses*	16	**(374 909)**	(353 675)	**(30 913)**	(27 802)
Finance cost on leases (IFRS 16)	2.3	**(861)**	(1 110)	**(646)**	(729)
Impairment losses	16.2	**(19 056)**	(3 974)	**–**	–
Profit before share of profit of associates and joint ventures		**408 905**	395 059	**385 630**	356 228
Share of profit of associates and joint ventures	4.5	**257 268**	229 001	**–**	–
Impairment of associates	4.5	**–**	(86 768)	**–**	–
Profit before tax		**666 173**	537 292	**385 630**	356 228
Income tax expense	17	**(128 664)**	(98 919)	**(9 597)**	(930)
Profit for the year from continuing operations		**537 509**	438 373	**376 033**	355 298
Discontinued operations					
Profit for the year from discontinued operations	4.6	**–**	2 191	**–**	–
Profit for the year		**537 509**	440 564	**376 033**	355 298
Profit attributable to:					
– Equity holders of the parent from continuing operations		**531 999**	434 820	**376 033**	355 298
– Equity holders of the parent from discontinued operations	4.6	**–**	2 191	**–**	–
– Non-controlling interests from continuing operations	10	**5 510**	3 553	**–**	–
		537 509	440 564	**376 033**	355 298
Earnings per share (thebe) (attributable to ordinary equity holders of the parent)					
– Basic	18	**193**	158		
– Diluted	18	**193**	158		
Earnings per share (thebe) from continuing operations					
– Basic		**193**	158		
– Diluted		**193**	157		

* *During 2020, management reviewed the presentation of investment income in the income statement. As a result of this review, the presentation has been changed to disclose investment management fees (which was incorrectly disclosed under investment income) as part of administration expenses from investment income. To provide comparability, the prior year balances have been restated.*

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		GROUP		COMPANY	
	Note	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Profit for the year		**537 509**	440 564	**376 033**	355 298
Other comprehensive income					
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Exchange differences on translation of foreign operations	7	**(70 212)**	(6 486)	**–**	–
Total comprehensive income for the year		**467 297**	434 078	**376 033**	355 298
Total comprehensive income attributable to:					
– Equity holders of the parent		**461 787**	428 334	**376 033**	355 298
– Equity holders of the parent from discontinued operations		**–**	2 191	**–**	–
– Non-controlling interests		**5 510**	3 553	**–**	–
		467 297	434 078	**376 033**	355 298

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Equity attributable to equity holders of the parent			
	Stated capital P'000	Treasury shares P'000	Share-based payment reserve P'000	Capital reserve account P'000
GROUP				
Balance as at 1 January 2019	154 936	(65 752)	91 822	572 627
Total comprehensive income	–	–	–	–
Profit for the year	–	–	–	–
Foreign currency translation	–	–	–	–
Share-based payment expense (note 7)	–	–	4 649	–
(Transfer from consolidation reserve)/transfer to retained income	–	–	–	(171 469)
Cost of treasury shares (acquired)/disposed	–	(667)	–	–
Dividends paid	–	–	–	–
Other movements in reserves*	–	–	–	–
Change in reserves in associates**	–	–	–	–
Balance as at 31 December 2019	154 936	(66 419)	96 471	401 158
Balance as at 1 January 2020	154 936	(66 419)	96 471	401 158
Total comprehensive income	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**
Foreign currency translation	**–**	**–**	**–**	**–**
Share-based payment expense (note 7)	**–**	**–**	**3 894**	**–**
(Transfer to statutory reserve)/transfer from retained income	**–**	**–**	**–**	**61 199**
Cost of treasury shares (acquired)/disposed	**–**	**(5 241)**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**
Other movements in reserves	**–**	**–**	**–**	**–**
Balance as at 31 December 2020	**154 936**	**(71 660)**	**100 365**	**462 357**
COMPANY				
Balance as at 1 January 2019	154 936	–	21 981	9 762
Profit for the year	–	–	–	–
Share-based payment expense	–	–	4 649	–
Dividends paid	–	–	–	–
Balance as at 31 December 2019	154 936	–	26 630	9 762
Profit for the year	**–**	**–**	**–**	**–**
Share-based payment expense	**–**	**–**	**4 819**	**–**
(Transfer from statutory reserve)/transfer to retained income***	**–**	**–**	**–**	**(9 762)**
Dividends paid	**–**	**–**	**–**	**–**
Balance as at 31 December 2020	**154 936**	**–**	**31 449**	**–**

** Contained in this amount is an amount relating to a once-off adjustment in eliminating investment in subsidiary.*
*** Contained in this amount is the group's share of share-based payment and revaluation from its associates.*
****Carried in the capital reserve opening balance is 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 per share for the year was 141 thebe per share (2019:131 thebe) gross of withholding tax.

Equity attributable to equity holders of the parent

Solvency 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
1 826	(160 842)	(116 232)	323 449	2 340 180	2 818 565	22 008	2 840 573
–	(6 486)	–	(6 486)	437 011	430 525	3 553	434 078
–	–	–	–	437 011	437 011	3 553	440 564
–	(6 486)	–	(6 486)	–	(6 486)	–	(6 486)
–	–	–	4 649	–	4 649	–	4 649
(1 826)	–	74 999	(98 296)	98 296	–	–	–
–	–	537	(130)	71 980	71 850	–	71 850
–	–	–	–	(368 684)	(368 684)	(2 177)	(370 861)
–	–	–	–	(21 153)	(21 153)	213	(20 940)
–	–	–	–	3 501	3 501	–	3 501
–	(167 328)	(40 696)	223 186	2 561 131	2 939 253	23 597	2 962 850
–	(167 328)	(40 696)	223 186	2 561 131	2 939 253	23 597	2 962 850
–	**(70 212)**	**–**	**(70 212)**	**531 999**	**461 787**	**5 510**	**467 297**
–	**–**	**–**	**–**	**531 999**	**531 999**	**5 510**	**537 509**
–	**(70 212)**	**–**	**(70 212)**	**–**	**(70 212)**	**–**	**(70 212)**
–	**–**	**–**	**3 894**	**–**	**3 894**	**–**	**3 894**
	–	**–**	**61 199**	**(61 199)**	**–**	**–**	**–**
–	**–**	**541**	**(4 700)**	**–**	**(4 700)**	**–**	**(4 700)**
–	**–**	**–**	**–**	**(424 201)**	**(424 201)**	**(3 879)**	**(428 080)**
–	**30 600**	**–**	**30 600**	**(22 016)**	**8 584**	**–**	**8 584**
–	**(206 940)**	**(40 155)**	**243 967**	**2 585 714**	**2 984 617**	**25 228**	**3 009 845**
–	–	–	31 743	242 840	429 519	–	429 519
–	–	–	–	355 298	355 298	–	355 298
–	–	–	4 649	–	4 649	–	4 649
–	–	–	–	(368 684)	(368 684)	–	(368 684)
–	–	–	36 392	229 454	420 782	–	420 782
–	**–**	**–**	**–**	**376 033**	**376 033**	**–**	**376 033**
–	**–**	**–**	**4 819**	**–**	**4 819**	**–**	**4 819**
–	**–**	**–**	**(9 762)**	**9 762**	**–**	**–**	**–**
–	**–**	**–**	**–**	**(374 637)**	**(374 637)**	**–**	**(374 637)**
–	**–**	**–**	**31 449**	**240 612**	**426 997**	**–**	**426 997**

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2020

		GROUP		COMPANY	
	Note	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Net cash flows from operating activities		**955 391**	608 728	**(8 243)**	(12 978)
Cash generated from operations	22	**1 293 741**	763 865	**(46 698)**	(15 316)
Interest received		**40 341**	133 179	**2 397**	2 417
Dividend received from equity investments		**14 947**	108 547	**–**	–
Dividend received from subsidiaries		**–**	–	**394 616**	357 015
Dividend received from associates and joint ventures*		**105 969**	73 247	**18 197**	14 203
Interest expense on leases (IFRS 16)	2.3	**(861)**	(1 110)	**(646)**	(729)
Tax paid	17.1	**(70 666)**	(98 139)	**(1 472)**	(1 884)
Dividend paid		**(428 080)**	(370 861)	**(374 637)**	(368 684)
Net cash flows utilised in investing activities		**(873 276)**	(555 501)	**4 199**	24 827
Purchase of property and equipment	2	**(32 280)**	(8 541)	**(189)**	–
Purchase of computer software	3	**(1 934)**	(15 545)	**–**	(173)
Proceeds from sale of investment in subsidiaries	4.5	**4 388**	25 000	**4 388**	25 000
Purchase of investment in associates	4.5	**(2 633)**	(31 568)	**–**	–
Acquisition of property investments**		**(207 605)**	(400 396)	**–**	–
Purchase of bonds**		**(1 157 880)**	(808 238)	**–**	–
(Purchase)/withdrawals of equity investments**		**(202 237)**	1 772 797	**–**	–
Repayments from loan advances		**–**	393 951	**–**	–
Withdrawal/(purchase) of money market instruments**		**716 206**	(1 482 961)	**–**	–
Receipts from loans receivable at amortised cost		**10 698**	–	**–**	–
Net cash flows from financing activities		**(4 573)**	(3 976)	**(1 543)**	(1 354)
Payment of principal portion of lease liabilities (IFRS 16)		**(4 573)**	(3 976)	**(1 543)**	(1 354)
Net (decrease)/increase in cash and cash equivalents		**77 542**	49 251	**(5 587)**	10 495
Cash and cash equivalents at the beginning of the year		**162 095**	112 844	**73 999**	63 504
Cash and cash equivalents at the end of the year	23	**239 637**	162 095	**68 412**	73 999

* *During 2020, management reviewed the presentation of dividend received from subsidiaries in the statement of cash flows. As a result of this review, the presentation has been changed to disclose dividend received from associates and joint ventures separately from dividend received from subsidiaries. To provide comparability, the prior year balances have been restated. Management is of the view that this enhancement provides more relevant information to users.*

** *During 2020, management reviewed the presentation of cash flows from investing activities. As a result of this review, the prior year balances for acquisition of property investments, purchase of bonds, withdrawal of equity investments and purchase of money market instruments have been restated to correct a prior year error to take into account movements in fair values as they were incorrectly included within the aforementioned line items.*

The impact of the correction is as follows:

- *Acquisition of property investments (impact a decrease of P10,5 million);*
- *Acquisition of bonds (impact is an increase of P341,9 million);*
- *Withdrawal of equity investments (impact is an increase of P50,4 million); and*
- *Acquisition of money market instruments (impact is a decrease of P213,9 million).*

The money market instruments on the face of the statement of financial position amounting to P1,291 million (2019: P748 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 2020

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, holds 58% of the company's stated capital. Sanlam is one of the leading financial services groups in South Africa. It is listed on the JSE Limited or 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 on page 136. 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 2020. 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
The conceptual framework for financial reporting	1 January 2020
Definitions of a business – amendments to IFRS 3	1 January 2020
Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of material – amendments to IAS 1 and IAS 8	1 January 2020
COVID-19-related rent concessions – amendment to IFRS 16	1 June 2020

3. Changes in accounting policies continued

Definitions of a business – amendments to IFRS 3

The amendment:

- confirmed that a business must include inputs and a process, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs;
- narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
- added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially concentrated in a single asset or group of similar assets.

The effective date of the amendment is for years beginning on or after 1 January 2020. The group adopted the amendment for the first time in the 2020 annual financial statements and the amendment did not result have any material changes to the group.

The impact of the amendment is not material.

Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The group has applied the new amendments with no material impact.

Definition of material – amendments to IAS 1 and IAS 8

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The effective date of the amendments is for years beginning on or after 1 January 2020. The group adopted the amendments for the first time in the 2020 annual financial statements and the amendments did not have any material changes to the group.

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 were not a lease modification. The effective date of the amendment is 1 June 2020. The group 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 consolidated annual financial statements are listed below. This listing is of standards and interpretations issued, which the consolidated reasonably expects to be applicable at a future date. The group intends to adopt these standards when they become effective.

New or revised standards and interpretations:

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, and IFRS 7, IFRS 4 and IFRS 16	1 January 2021
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture	Effective date deferred indefinitely

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. 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);
- 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 service results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
  - 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. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected.

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.

4. Significant accounting judgements, estimates and assumptions

The group makes judgements, estimates and assumptions that affect the reported amounts of revenue, 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.

4. Significant accounting judgements, estimates and assumptions continued

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

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.

The group has not currently made any changes to its mortality assumptions to allow for the impact of COVID-19. This is because additional population mortality from COVID-19-related deaths is so far not significant and even less significant for our life insurance book. We also believe there is sufficient prudence in mortality assumptions to take significant shocks in our mortality experience. The Government of Botswana through the Ministry of Health has indicated that they have secured assorted COVID-19 vaccines through the COVAX and African Vaccine Acquisition Task Team (AVATT) programmes and is expecting to start vaccinating the population starting in March 2021. While vaccines offer hope, there remains great uncertainty on the trajectory of the disease owing to continuous mutation of the COVID-19 virus, the effectiveness of vaccines to new mutations, effectiveness of the COVID-19 immunisation programme by the Government, coverage of the immunisation programme and affordability of COVID-19 vaccines by the Government. The group has so far not set aside any actuarial reserves for the expected increase in mortality arising from COVID-19-related deaths and continues to monitor COVID-19-related deaths closely at business and national level.

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 2020 was P10,8 billion (2019: P10,4 billion). Refer to statutory actuary's report for assumptions on the actuarial valuation of the liability.

Fair value of investments in unquoted equity and other loan advances

The investments in unquoted equity instruments and loan advances 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 P179 million (2019: P267 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 (2019: 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 with 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. All acquisition costs in respect of the sale of new policies are recognised in profit or loss in the year of sale and are not deferred.

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 P10,8 million (2019: P10,4 million) – refer to note 8.1 for assumptions on the actuarial valuation of the liability.

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 P25,1 million (2019: P26,4 million). Refer to the statutory actuary report for assumptions on the actuarial valuation of the liability.

Provision for future bonuses

Future bonuses of 3% (2019: 3%) per annum are allowed for in the gross premium valuation.

Revisionary bonus business

The business is valued on a prospective basis assuming 3% (2019: 3%) per annum bonus rates going forward and allowing for prescribed margins.

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 (2019: P24,3 million).

4. Significant accounting judgements, estimates and assumptions continued

Estimates of claims 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 IBNR at the reporting date. 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 2020 or 31 December 2019 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; and

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); and
- 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; and
- 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) 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, which is 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 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 for 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 Nico Holdings PLC and Letshego 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 (BLIL), 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 PLC); and
- **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 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 regards to their practical ability to allow the group not to control the fund. The group assesses, on an annual basis, such interests to determine if the fund will be consolidated. 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; and
- 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.

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. The fees fall due and payable when billed either monthly, quarterly or biannually predetermined as stipulated in each contract.

Performance fees are fees earned when biannually 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 1 December each year. The performance fee rate is 0,1% of the market value of the fund as at 30 November 2020, which is also the contract evaluation date. The annual performance fees for 2020 are for the period 1 December 2019 to 30 November 2020. 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 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 premiums income in the reporting period. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

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 as at fair value through profit 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 as 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.

6. Summary of significant accounting policies continued

Revenue recognition continued

Benefits, claims and expenses recognition continued

Gross benefits and claims continued

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. 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 2020. 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; and
- the ability to use its power over the investee to affect its returns.

The group reassesses whether or not 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; and
- 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 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.

6. Summary of significant accounting policies continued

Financial instruments continued

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; and
- 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; and
- 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 mandatory 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.

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;
- 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; or
- 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; and
  - 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;
- 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; or
- 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 into 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 taking into account 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 the 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, however, 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 taking into account 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.

6. Summary of significant accounting policies continued

Financial liabilities continued

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.

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 the 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 particular 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 asset's 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.

6. Summary of significant accounting policies continued

Intangible assets continued

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. 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 taking into account 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 by the reporting date.

Value added tax

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

- where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the 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; and
- 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 2020, 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 also 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.

6. Summary of significant accounting policies continued

Employee benefits continued

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 certain 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, employee's 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.

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

Employees of the group receive remuneration in the form of share-based payment compensation, whereby employees render services as consideration for equity instruments. Until 2009, the group operated an equity-settled group share-based payment scheme. The scheme is divided into two; one for management staff and one for other staff. The objective of the scheme was to retain staff. The scheme will continue until the entire granted shares vest but there will not be any new allocations under the scheme. Transactions within the management scheme and the staff scheme are accounted for as equity-settled.

In 2010, the group introduced two additional schemes to replace the old scheme: The share option scheme 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 human resources committee which employees it intends to incentivise by making offers subject to the approval of the human resources 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 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 or not 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, however, is 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 taking into account 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

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

At the inception of the Bifm CEE share option scheme, Bifm issued 21 849 246 additional shares (representing 25,1% of 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 the 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 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; and
- 10,1% (8 791 928 shares) was issued to the Bifm CEE share trust to hold on behalf of Bifm employees to be allocated annually in the form of grants with a vesting period of three years.

Bifm company 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 consolidated 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 financial statements are authorised for issue are disclosed by way of a note to the 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.

6. Summary of significant accounting policies continued

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 of time 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 of the economic benefits from the use of the asset throughout the period of use; and
- 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.

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; and
- 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.

Capital reserve account – short-term insurance

The non-bank Financial Institutions Regulatory Authority Act requires that 15% of the net profit after tax be transferred to a capital reserve account. This reserve is used solely for increasing the company's paid-up stated capital.

Statutory reserve solvency account

The Insurance Industry Act, 2015 requires that 10% of the company's gross profit be transferred to a statutory reserve solvency account provided the amount so transferred in each year is limited to 25% of the previous year's gross premium. The reserve can only be reduced or encumbered upon written notice from the registrar. Gross profit means chargeable income of the insurer as ascertained under part VI of the Income Tax Act.

Share-based payment reserve

This is associated with equity-settled share-based payment compensation as described under 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.

6. Summary of significant accounting policies continued

Non-distributable reserves continued

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'; and
- insurance contracts with discretionary participation features.

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 is able to withstand any losses due to the mismatch of asset and liability cash flows; and
- 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 2020 and 31 December 2019 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. 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 unutilised funds underlying unit-linked contracts by multiplying the number of units by the price of these units. The company 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 company. 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 the following categories:

- Investment contracts with discretionary participation features (DPF);
- Investment contracts with investment management services; and
- 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 have to be exercised in a reasonable way; and
- 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.

Non-life insurance contract liabilities

Non-life insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The company uses an industry average to calculate the cost. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received that relate to a risk period beyond the current financial period. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

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 unitemised 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 prices 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 the value of the assets for the purposes of the annual financial statements.

The liability is derecognised when the contract expires, is discharged or is 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.

6. Summary of significant accounting policies continued

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; and
- Long-term insurance risks.

Capital management

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order 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 2019 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 Services 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.

	2020 P'000	2019 P'000
Shareholders' equity	**2 984 617**	2 939 253
Prescribed capital target (life business only)	**362 110**	321 268
Ratio of excess assets to prescribed capital target (life business only) (%)	**5,89**	6,32

Governance structure

The agenda of the BIHL board focuses on group strategy, capital management, accounting policies, financial results, dividend policy, human resource development and 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.

6. Summary of significant accounting policies continued

Governance structure continued

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 co-ordination 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

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 the group business continuity management policy.

These policies were developed by group risk management and have to 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 enterprise risk management 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; and
- 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 counter-parties 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 auditors provide 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.

6. Summary of significant accounting policies continued

General operational risks continued

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 directors' 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 on a monthly basis.

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 undermines 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 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 counter-parties, 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;
- As part of the annual budgeting process, the group businesses present their strategic plans and budgets to the BIHL board, who ensure that the business' strategies are aligned with the overall group strategy; and
- 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 manage 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.

6. Summary of significant accounting policies continued

Risk management: per type of risk continued

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 re-rate 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; and
- Expenses are continuously monitored and managed through the business' budgeting process.

The impact of COVID-19 on our underwriting has been 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:

	2020 Years	2019 Years
Liabilities	8,6	9,1
Assets	7,6	8,1

The effect of a 1% upward parallel change in interest rates is approximately P49 million (2019: P58 million) on operating profits while a 1% downward parallel shift has an impact of P68 million (2019: P76,3 million).

The table below indicates the impact of changes in assumptions

P'000	Base value	Investment returns and inflation	Equity and property prices	Equity and property returns	Maintenance expense	Dis-continuance rates	Mortality and morbidity rates
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**
2019							
Individual life business	2 252 709	2 264 959	2 274 430	2 251 344	2 236 009	2 243 840	2 253 162
Annuity business	7 826 203	7 816 263	7 826 203	7 826 203	7 817 883	7 826 203	7 907 433
Group life business	361 387	361 387	361 387	361 387	360 303	361 387	349 642
Total	10 440 299	10 442 609	10 462 020	10 438 934	10 414 195	10 431 430	10 510 237

The above sensitivities are after taking into account the re-rating of premiums but before the impact of reinsurance. The impact of reinsurance is not material for the disclosed sensitivities.

Sensitivity analysis of insurance risks

Scenario	Value of inforce business before cost of capital 2020 P'000	2019 P'000
Base value	**1 812 147**	1 775 563
Increase risk discount rate by 1%	**1 727 321**	1 693 182
Decrease risk discount rate by 1%	**1 896 581**	1 861 422
Investment return (and inflation) decreased by 1% and with bonus rates and discount rates changing commensurately	**1 873 763**	1 894 206
Equities/property assets fall by 10% without a corresponding fall/rise in dividend/rental yield	**1 806 147**	1 771 235
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	**1 851 775**	1 805 712
Non-commission maintenance unit expenses (excluding investment expenses) decrease by 10%	**1 877 914**	1 854 976
Discontinuance rates – life insurance business – decrease by 10%	**1 870 956**	1 857 984
Base mortality and morbidity rates decreased by 5% for life assurance business	**1 877 094**	1 865 368
Base mortality and morbidity rates decreased by 5% for life annuity business	**1 812 150**	1 777 020

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 – prescribed capital target for long-term insurers by the Non-Bank Financial Institutions Regulatory Authority). The prescribed capital target for the life business is covered 5,89 times (2019: 6,32 times).

6. Summary of significant accounting policies continued

Sensitivity analysis of insurance risks continued

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	
	2020 P'000	2019 P'000	2020 %	2019 %	2020 %	2019 %
0 – 500	**647 240**	613 987	**22**	34	**40**	75
501 – 1 000	**2 255**	4 030	**3**	9	**41**	23
1 001 – 5 000	**15 437**	10 387	**62**	52	**19**	2
5 001 – 8 000	**690**	214	**8**	3	**–**	–
>8 000	**237**	58	**5**	2	**–**	–
Total	**665 859**	628 676	**100**	100	**100**	100

Non-participating annuity payable

	Number of lives		Concentration before reinsurance		Concentration after reinsurance	
	2020 P'000	2019 P'000	2020 %	2019 %	2020 %	2019 %
0 – 20	**2 929**	2 702	**6**	5	**6**	6
21 – 40	**2 346**	2 181	**11**	11	**11**	10
41 – 60	**1 585**	1 530	**13**	13	**13**	14
61 – 80	**1 227**	1 171	**14**	14	**14**	15
81 – 100	**938**	911	**14**	14	**14**	15
>100	**1 749**	1 627	**42**	43	**42**	40
Total	**10 774**	10 122	**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 2020

1. Segmental analysis

Basis of segmentation

For management purposes, the group is organised into three 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 BLIL, a subsidiary of the group; and
- 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.

Segment that do not fall under the two key segments have been classified under 'other'. These comprise associates (Letshego, Nico Holdings PLC, Funeral Services Group and Botswana Insurance Company) and the holding company. The associates offer diverse products and services which can be broken down into their own segments.

Inter-segment transactions that occurred during 2020 and 2019 between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segmental income, segment expense and segment results will then include those transfers between business segments, which are eliminated on consolidation.

Business segments

As at 31 December 2020, the group's operating businesses were 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 Holdings PLC. 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 PLC, 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.

1. Segmental analysis continued

1.1 Segment information by products and services

	Life business		Asset management	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Premium revenue	2 879 625	2 597 852	–	–
Fee revenue				
– Internal	–	–	2 141	1 731
– External	–	–	127 214	120 836
Investment income	636 246	726 354	(2 862)	248 261
Interest income using EIR	3 851	8 381	–	–
Profit on sale of subsidiary	–	–	–	–
Net gain/(loss) from financial assets held at fair value through profit or loss	(393 385)	(116 259)	6 584	159 128
Total net income	3 126 337	3 216 328	133 077	529 956
Depreciation	5 745	6 427	1 106	1 255
Amortisation and impairment	6 558	6 165	267	158
Right-of-use asset amortisation	5 253	4 872	2 113	1 916
Selling expenses	424 194	397 221	–	–
Net insurance benefits and claims	1 689 071	1 649 328	–	–
Change in policyholder liabilities under life insurance contracts	403 534	584 757	–	–
Change in liabilities under investment contracts	–	–	(3 912)	(421 258)
Profit before tax	384 725	394 532	70 325	55 431
Income tax expense	92 763	94 074	23 184	18 746
Profit after tax	291 962	300 458	47 141	36 685
Profit for the year from discontinued operations	–	–	–	–
Total assets	13 678 407	12 928 868	5 011 273	535 773
Total liabilities	11 542 490	10 899 230	4 560 312	46 099
Capital expenditure	31 325	32 945	766	10 270
Associates and joint ventures				
– Share of profit of associates	–	–	–	–
– Impairment (expense)/reversal of associates	–	–	–	–
– Investment in associates and joint ventures	1 272 231	1 217 776	73 175	113 275
Return on equity value (%)	12,28	19,28	19,73	14,89

	Other		Inter-segmental		Consolidated total	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000	2020 P'000	2019 P'000
	–	–	–	–	2 879 625	2 597 852
	–	–	(2 141)	(1 731)	–	–
	(18 279)	(22 422)	–	–	108 935	98 414
	488 664	613 955	(432 779)	(619 276)	689 269	969 294
	2 987	2 784	–	–	6 838	11 165
	1 396	3 472	–	–	1 396	3 472
	(69 220)	180 243	19 218	(167 114)	(436 803)	55 998
	405 548	778 032	(415 702)	(788 121)	3 249 260	3 736 195
	730	1 038	–	–	7 581	8 720
	246	539	–	–	7 071	6 862
	2 209	2 209	(4 322)	(4 125)	5 253	4 872
	–	–	–	–	424 194	397 221
	–	–	–	–	1 689 071	1 649 328
	–	–	–	–	403 534	584 757
	–	–	–	–	(3 912)	(421 258)
	375 956	361 269	(422 101)	(416 273)	408 905	394 959
	12 717	(13 901)	–	–	128 664	98 919
	363 239	375 170	(422 101)	(416 273)	280 241	296 040
	–	2 191	–	–	–	2 191
	1 873 845	6 612 814	(3 486 845)	(3 583 815)	17 076 680	16 493 640
	1 232 202	6 026 584	(3 268 169)	(3 441 115)	14 066 835	13 530 798
	189	(5 469)	–	–	32 280	37 746
					–	–
	257 268	229 001	–	–	257 268	229 001
	–	(86 768)	–	–	–	(86 768)
	437 798	336 724	(69 210)	(3 152)	1 713 994	1 664 623
	11,59	3,54	n/a	n/a	12,98	12,98

2. Property and equipment

	GROUP					
	Owner-occupied property P'000	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improvements P'000	Total P'000
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**
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**	**18 099**	**3 032**	**18 140**	**83 203**
Current year charge	**1 380**	**2 828**	**1 151**	**241**	**1 981**	**7 581**
Disposals	**–**	**(980)**	**(1 078)**	**–**	**(25)**	**(2 083)**
As at 31 December 2020	**6 234**	**40 926**	**18 172**	**3 273**	**20 096**	**88 701**
Carrying amount						
As at 1 January 2020	**130 188**	**5 581**	**4 957**	**695**	**13 142**	**154 562**
As at 31 December 2020	**128 808**	**6 511**	**4 484**	**679**	**38 780**	**179 261**
2019						
Cost						
As at 1 January 2019	135 042	42 417	23 489	3 290	28 951	233 189
Additions	–	3 594	1 787	829	2 331	8 541
Discontinued operation	–	(1 352)	(2 220)	(392)	–	(3 964)
As at 31 December 2019	135 042	44 659	23 056	3 727	31 282	237 766
Accumulated depreciation						
As at 1 January 2019	3 474	37 345	18 750	2 739	15 561	77 869
Current year charge	1 380	2 934	1 463	364	2 579	8 720
Discontinued operation	–	(1 201)	(2 113)	(71)	–	(3 386)
As at 31 December 2019	4 854	39 078	18 099	3 032	18 140	83 203
Carrying amount						
As at 1 January 2019	131 568	5 072	4 739	551	13 390	155 320
As at 31 December 2019	130 188	5 581	4 957	695	13 142	154 562

The gross carrying amount of fully depreciated property and equipment that were still in use amounted to P117,3 million (2019: P82,4 million).

2. Property and equipment continued

COMPANY

	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improve-ments P'000	Total P'000
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					
As at 1 January 2020	**176**	**251**	**–**	**2 987**	**3 414**
As at 31 December 2020	**84**	**317**	**–**	**2 472**	**2 873**
2019					
Cost					
As at 1 January 2019	7 699	2 158	179	5 145	15 181
As at 31 December 2019	7 699	2 158	179	5 145	15 181
Accumulated depreciation					
As at 1 January 2019	7 335	1 799	179	1 644	10 957
Current year charge	188	108	–	514	810
As at 31 December 2019	7 523	1 907	179	2 158	11 767
Carrying amount					
As at 1 January 2019	364	359	–	3 501	4 224
As at 31 December 2019	176	251	–	2 987	3 414

2. Property and equipment continued

2.1 Right-of-use assets

	GROUP P'000	COMPANY P'000
2020		
Cost		
As at 1 January 2020	**25 639**	**15 465**
As at 31 December 2020	**25 639**	**15 465**
Accumulated depreciation		
As at 1 January 2020	**4 872**	**2 209**
Current year charge	**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**
2019		
Cost		
As at 1 January 2019	19 538	15 465
Additions	6 101	–
As at 31 December 2019	25 639	15 465
Accumulated depreciation		
As at 1 January 2019	–	–
Current year charge	4 872	2 209
As at 31 December 2019	4 872	2 209
Carrying amount		
As at 1 January 2019	19 538	15 465
As at 31 December 2019	20 767	13 256

The group leases a number of offices across the country. As at 31 December 2020, a total of 10 offices are leased (10 in December 2019). The leases have remaining lease periods of between one year and 6,5 years as at 31 December 2020, inclusive of expected extension periods. All the leases have renewal/extension periods which are expected to be exercised. The lease with the longest life is expected to expire on 30 June 2027 taking into consideration the extension option.

The following assumptions were made in arriving at the valuation:

- Initial term of leases – Ranging from one year to five years;
- Option to extend – Ranging from one year to three years;
- Annual lease escalation rate – Ranging from 5% to 10% per annum; and
- Incremental borrowing rate at 4,45%.

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
2020		
Lease liability as at 1 January 2020	**21 431**	**14 111**
Additional lease commitments at present value	**–**	**–**
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	**14 015**
Less: finance charges component	**(1 550)**	**(1 447)**
Present value of lease liability	**16 858**	**12 568**
2019		
Lease liability on initial recognition on 1 January 2019	19 306	15 465
Additional lease commitments at present value	6 101	–
Accretion of interest	1 110	729
Lease payments	(5 086)	(2 083)
As at 31 December 2019	21 431	14 111
The maturity analysis of the lease liability is as follows:		
Within one year	5 692	2 249
Two to five years	16 478	7 886
More than five years	1 672	6 069
	23 842	16 205
Less: finance charges component	(2 411)	(2 094)
Present value of lease liability	21 431	14 111

3. Intangible assets

	GROUP		
	Goodwill P'000	Computer software P'000	Total P'000
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**
2019			
Cost			
As at 1 January 2019	114 923	113 612	228 535
Additions	–	15 545	15 545
Discontinued operation	–	(4 533)	(4 533)
As at 31 December 2019	114 923	124 624	239 547
Accumulated amortisation and impairment			
As at 1 January 2019	51 931	77 150	129 081
Current year amortisation	–	6 862	6 862
Discontinued operation	–	(622)	(622)
As at 31 December 2019	51 931	83 390	135 321
Carrying amount			
As at 1 January 2019	62 992	36 462	99 454
As at 31 December 2019	62 992	41 234	104 226

3. Intangible assets continued

	COMPANY	
	Computer software P'000	Total P'000
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**
2019		
Cost		
As at 1 January 2019	11 908	11 908
Additions	173	173
As at 31 December 2019	12 081	12 081
Accumulated amortisation and impairment		
As at 1 January 2019	10 823	10 823
Current year amortisation	228	228
As at 31 December 2019	11 051	11 051
Carrying amount		
As at 1 January 2019	1 085	1 085
As at 31 December 2019	1 029	1 029

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to one cash-generating unit which is equivalent to one of two operating segments of the group. Goodwill was impaired by Pnil (2019: Pnil) for the asset management segment during the year.

Asset management business

	2020 P'000	2019 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% (2019: 4%) 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 15% (2019: 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 assets under management (AUM).

The key assumptions used for the impairment calculations of the asset management business are:

Scenario	2020 %	2019 %
Investment income/surplus return	**5,6**	5,6
Investment growth on AUM (after tax)	**5,3**	6,8
Net inflows as a % of AUM	**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 P202 million (2019: P61 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 P35 million (2019: P21 million).

4. Investments

Fair values

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Investments designated at fair value through profit or loss				
At the beginning of the year	**13 226 448**	13 045 998	**–**	–
Net contributions and withdrawals	**643 910**	124 452	**–**	–
Fair value adjustments on investments	**(436 803)**	55 998	**–**	–
At the end of the year	**13 433 555**	13 226 448	**–**	–

4.1 Bonds, notes, policy loans and similar securities

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Designated at fair value through profit or loss				
Bonds (Government, public authority, listed and unlisted corporates)	**9 282 087**	8 608 179	**–**	–
Money market instruments	**2 109 039**	2 834 067	**–**	–
Equity investments (note 4.2)	**2 042 429**	1 784 202	**–**	–
	13 433 555	13 226 448	**–**	–

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.

The bonds are made up of both listed and unlisted bonds. Listed bonds have fixed interest rates which range from 1,3% to 11,2% (2019: 4,5% to 11,2%). Bond repayment terms range between 0 to 27 years (2019: 0 to 24 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 P13,4 billion (2019: P13,2 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 P32 million (2019: Pnil) and the change for the current year is a loss of P32 million (2019: Pnil).

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 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 (2019: 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% (2019: 5,2% and 11%) annually, calculated and compounded on a quarterly basis. Bond repayment terms range between 0 to 27 years (2019: 0 to 24 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 1,7% for 2020 (2019: 1,7%). All money market instruments are of a short-term nature, being exercisable within one year of year-end.

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Sectoral analysis for bonds, money market and equity instruments				
Consumer discretionary	**420 983**	438 851	**–**	–
Financials	**4 026 896**	3 912 777	**–**	–
Education	**31 784**	34 984	**–**	–
Property	**911 008**	899 420	**–**	–
Tourism	**94 125**	113 737	**–**	–
Offshore foreign equities	**2 763 345**	2 803 299	**–**	–
Government	**5 185 414**	5 023 380	**–**	–
	13 433 555	13 226 448	**–**	–

4. Investments continued
4.2 Equity investments

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Listed in Botswana	**502 570**	474 808	**–**	–
Listed in foreign markets	**1 361 002**	1 041 909	**–**	–
Unlisted	**178 857**	267 485	**–**	–
	2 042 429	1 784 202	**–**	–

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.

4. Investments continued

4.3 Other loan advances

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening balance	**–**	393 951	**–**	–
Interest charges	**–**	15 160	**–**	–
Asset reallocation	**–**	(409 111)	**–**	–
	–	–	**–**	–

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 and, the prime rate was 4,25% (2019: 6,5%).

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 (2019: not applicable). The risk premium has been used as a risk adjustment to the Government risk-free rate.

Long-term loan

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening balance	**50 000**	50 000	**–**	–
Interest charged for the year	**5 085**	6 000	**–**	–
Interest received during the year	**(5 085)**	(6 000)	**–**	–
Capital repayment	**(10 698)**	–	**–**	–
Impairment	**(3 170)**	–	**–**	–
Closing balance as at 31 December	**36 132**	50 000	**–**	–

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 during the year by P3,2 million (2019: Pnil) using the general approach (stage 2) to allow for the increased risk of BOPEU not being able to repay its loan as its revenue has been negatively impacted by low economic activity as a result of lockdown measures to curb COVID-19 spread. The impairment review has factored in the drop in the value of the security.

4. Investments continued

4.4 Investment property and investments in unlisted property funds

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
At the beginning of the year	850 909	411 476	–	–
Purchase of investments	207 605	400 396	–	–
Fair value gains	7 526	39 037	–	–
	1 066 040	850 909	–	–
Physical properties held	10 160	121 615	–	–
Investments in unlisted property companies	1 055 880	729 294	–	–
Investments properties				
Opening balance as at 1 January	121 615	117 344	–	–
Transfer to unitised funds*	(111 455)	–	–	–
Gains from fair value adjustment	–	4 271	–	–
Closing balance as at 31 December	10 160	121 615	–	–
Rental income derived from investment properties	–	15 953	–	–
Direct operating expenses (including repairs and maintenance) generating rental income	–	7 471	–	–

* *The transfer out of assets relates to physical properties that were transferred and registered under the CIU property fund as requested by the Regulator.*

Investments in unlisted property companies are held at fair value through profit or loss.

The group investment properties consist of commercial properties.

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Investments in property funds				
Opening balance as at 1 January	729 294	294 132	–	–
Additions	207 604	400 396		
Transfer from investment properties	111 455	(4 271)	–	–
Gains from fair value adjustments	7 526	39 037	–	–
Closing balance as at 31 December	1 055 880	729 294	–	–
Analysed as follows:				
Shareholder portion	10 160	121 615	–	–
Policyholder portion	1 055 880	729 294	–	–
Total	1 066 040	850 909	–	–

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 2020 and 31 December 2019 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 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:

	2020 %	2019 %
Inflation rate	**3,00**	3,00
Capitalisation rates	**8,00 – 12,50**	8,00 – 12,50
Long-term vacancy rates	**0 – 2,00**	0 – 20,00

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.

4. Investments continued

4.5 Interest in associates and joint ventures

	GROUP	
	Joint ventures	
	Khumo Property Asset Management	Teledimo
2020		
Carrying amount (P'000)	11 840	141 803
Interest in issued share capital		
Shareholders' fund (%)	50,00	50,00
Share of earnings after tax for the current year (P'000)	3 191	21 140
Foreign currency transactional differences	–	–
Change in reserves in associates and other comprehensive income	–	–
(Disposal)/additional investment in associates, joint ventures and subsidiaries	–	–
Distributions received (P'000)	(2 775)	(9 500)
Total assets and liabilities of the joint ventures and associates (P'000)		
Non-current assets	5 216	220 247
Current financial assets, excluding cash and cash equivalents	4 733	112 998
Cash and cash equivalents	10 457	133 227
Non-current financial liabilities excluding trade and other payables	4 598	(8 795)
Current financial liabilities excluding trade and other payables and provisions	6 000	(97 168)
Current liabilities including trade and other provisions	4 613	(26 708)
Shareholders' equity	35 617	333 801
Carrying amount (P'000)	11 840	141 803
Calculated carrying value	17 809	166 901
Effects of fair value adjustments and goodwill at initial recognition	(5 969)	(25 098)
Summarised statement of profit or loss of the joint ventures and associates (P'000)		
Revenue	22 885	209 090
Interest income	128	4 700
Cost of sales	–	–
Administration expenses, excluding depreciation and amortisation	(13 685)	(166 085)
Depreciation and amortisation	(925)	–
Finance costs including interest expense	(284)	–
Profit/loss before tax	8 119	47 706
Share of loss of joint ventures	–	–
Income tax expense	(1 736)	(8 110)
Profit/loss for the year (continuing operations)	6 383	39 596
Group's share of profit/loss for the year	3 191	21 140

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.

GROUP

Associates

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 PLC	Letshego Holdings Limited	Total
45 121	92 501	3 552	7 101	45 633	564	187 566	1 178 314	1 713 994
20,00	37,62	33,00	33,00	49,00	49,00	25,10	28,05	–
1 000	22 911	–	682	6 212	73	44 268	157 791	257 268
–	(3 418)	–	–	(11 821)	–	(7 047)	(48 309)	(70 595)
2 636	1 039	–	–	(43 911)	–	–	6 270	(33 966)
–	2 784	–	–	–	–	(151)	–	2 633
–	(15 334)	(384)	–	–	–	(8 697)	(69 279)	(105 969)
115 340	218 711	–	140 379	51 136	45 055	178 561	318 747	1 293 393
12 438	36 378	–	15 480	70 231	4 678	2 891	10 722 827	10 982 654
20 131	65 438	–	–	2 632	173	40 781	1 043 633	1 316 472
(8 357)	(13 279)	–	(140 126)	(3 116)	(18 223)	40 442	(5 728 194)	(5 875 050)
(1 175)	(12 429)	–	(5 518)	(16 045)	(4 744)	9 632	(901 339)	(1 022 787)
(20 921)	(34 929)	–	–	(22 030)	(12 202)	–	(728 202)	(840 379)
117 457	259 890	–	10 215	82 806	14 737	272 308	4 727 472	5 854 302
45 121	92 501	3 552	7 101	45 633	564	187 566	1 178 314	1 713 994
23 491	97 693	–	3 371	40 575	7 221	68 349	1 326 056	1 751 466
21 630	(5 192)	3 552	3 730	5 058	(6 657)	119 217	(147 742)	(37 471)
92 498	196 507	–	12 243	80 089	15 877	1 625 473	2 147 268	4 399 667
1 854	3 241	–	16 148	7 341	(684)	416 258	–	446 376
(7 038)	(25 526)	–	(12 298)	–	–	(13 727)	–	(58 589)
(65 203)	(77 556)	–	(1 991)	(40 171)	(28 399)	(916 974)	(1 115 057)	(2 425 119)
(5 330)	(12 345)	–	–	(1 364)	–	–	–	(19 964)
–	(929)	–	(13 068)	–	–	(9 002)	(7 203)	(30 486)
16 782	83 392	–	1 034	45 895	(13 206)	1 102 028	1 025 008	2 311 884
–	1 690	–	–	–	–	–	–	1 690
(2 861)	(24 006)	–	(407)	(17 424)	1 000	(580 493)	(408 274)	(1 042 310)
13 921	61 076	–	627	28 471	(12 205)	521 536	616 734	1 271 264
1 000	22 911	–	682	6 212	73	44 268	157 791	257 268

4. Investments continued

4.5 Interest in associates and joint ventures continued

	GROUP	
	Joint ventures	
	Khumo Property Asset Management	Teledimo
2019		
Carrying amount (P'000)	11 424	130 163
Interest in issued share capital		
Shareholders' fund (%)	50,00	50,00
Additional investment	–	–
Share of earnings after tax for the current year (P'000)	2 712	13 921
Impairment	–	–
Foreign currency transnational differences	–	–
Change in reserves in associates	–	–
(Disposal)/additional investment in associates, joint ventures and subsidiaries	–	–
IFRS 9 provision day 1 impact	–	–
Distributions received (P'000)	(2 775)	(8 000)
Total assets and liabilities of the joint ventures and associates (P'000)		
Non-current assets	831	238 233
Current financial assets, excluding cash and cash equivalents	10 515	106 633
Cash and cash equivalents	3 572	63 617
Non-current financial liabilities excluding trade and other payables	–	(7 989)
Current financial liabilities excluding trade and other payables and provisions	–	(84 166)
Current liabilities	(9 448)	(11 407)
Shareholders' equity	5 470	304 921
Carrying amount (P'000)	11 424	128 906
Calculated carrying value	2 735	152 461
Effects of fair value adjustments and goodwill at initial recognition	8 689	(23 555)
Summarised statement of profit or loss of the joint ventures and associates (P'000)		
Revenue	19 547	182 020
Interest income	–	4 281
Cost of sales	–	–
Administration expenses, excluding depreciation and amortisation	(11 836)	(153 718)
Depreciation and amortisation	(832)	–
Finance costs including interest expense	–	–
Profit/loss before tax	6 879	32 584
Share of loss of joint ventures	–	–
Income tax expense	(1 500)	(4 741)
Profit/loss for the year (continuing operations)	5 379	27 843
Group's share of profit/loss for the year	2 712	13 921

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.

GROUP

Associates								
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 PLC	Letshego Holdings Limited	Total
41 485	84 519	3 936	6 419	95 153	491	159 193	1 131 841	1 664 623
20,00	37,00	33,00	33,00	49,00	49,00	25,10	28,11	–
–	–	–	–	–	–	–	–	–
1 699	16 538	(16)	631	9 329	(666)	19 185	164 411	227 744
–	–	–	–	–	–	19 445	(106 213)	(86 768)
–	(2 991)	–	–	(5 242)	277	(2 161)	(4 643)	(14 760)
2 437	1 139	–	–	–	–	(4 041)	1 747	1 282
–	2 436	–	–	–	–	–	29 132	31 568
–	–	–	–	–	–	–	138	138
–	(13 203)	(427)	–	–	–	(6 203)	(42 639)	(73 247)
125 370	218 982	–	140 379	46 169	46 812	4 132 988	273 542	5 223 306
13 520	44 471	–	15 480	49 177	1 586	923 351	9 557 868	10 722 601
44 172	40 894	–	–	8 230	676	201 878	997 408	1 360 448
(9 084)	(17 299)	–	(140 126)	(2 262)	(14 893)	2 836 586	(4 985 650)	(2 340 716)
(1 277)	(7 825)	–	(5 518)	(33 147)	(14 893)	(1 446 500)	(667 003)	(2 260 329)
(22 740)	(31 893)	–	–	(21 240)	(5 077)	(374 064)	(596 318)	(1 072 187)
149 961	247 330	–	10 215	46 928	14 212	6 274 239	4 579 847	11 633 124
41 485	84 519	3 936	6 419	95 153	491	159 193	1 131 841	1 663 367
29 992	91 512	–	3 371	22 995	6 964	1 574 834	1 287 395	3 172 259
11 493	(6 993)	3 936	3 048	72 158	(6 473)	(1 415 641)	(155 554)	(1 508 892)
162 305	182 940	–	12 243	67 557	16 494	1 625 473	2 232 582	4 498 898
2 853	2 241	–	16 148	6 671	381	416 258	–	446 222
(10 828)	(30 512)	–	(12 298)	–	–	(13 727)	–	(67 365)
(124 927)	(78 303)	–	(1 991)	(27 999)	(25 741)	(916 974)	(1 102 541)	(2 444 030)
(8 200)	(10 893)	–	–	–	–	–	–	(19 925)
–	(919)	–	(13 068)	–	–	(9 002)	–	(22 989)
21 203	64 553	–	1 034	46 228	(8 866)	1 102 028	1 130 041	2 390 811
–	(3 422)	–	–	–	–	–	–	(3 422)
(4 401)	(15 215)	–	(407)	(11 662)	–	(580 493)	(438 544)	(1 056 963)
16 802	45 916	–	627	34 566	(8 866)	521 536	691 497	1 330 426
1 699	16 538	(16)	631	9 329	(666)	19 185	58 198	121 531

4. Investments continued

4.5 Interest in associates and joint ventures continued

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Carrying amounts at the beginning of the year	1 664 623	1 577 409	357 602	368 357
Share of results after tax	257 268	229 001	–	–
Impairment (expense)/reversal of associates/subsidiary*	–	(86 768)	–	10 387
Dividend received	(105 969)	(73 247)	–	–
Purchase/(disposal) of associates, joint ventures and subsidiaries**	2 633	31 568	21 967	(21 142)
Change in reserves in associates	(33 966)	1 282	–	–
Foreign currency translation differences	(70 595)	(14 760)	–	–
IFRS 16 transition adjustment	–	138	–	–
Carrying amount at the end of the year	1 713 994	1 664 623	379 569	357 602

* *The total amount of impairment expense/reversal is recorded under the associates and joint ventures segment (note 1.1).*

** *The P22 million shown as an increase in investment under the company 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 (P21) million relates to the disposal of Legal Guard in 2019 (refer to note 4.6).*

The group, through its 100% owned subsidiary Bifm Holdings, has a 50% interest in Khumo Property Asset Management, a jointly controlled entity involved in property management. The group's interest in Khumo Property Asset Management 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 ventures, based on its IFRS financial statements, and the 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 and 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 BLIL has a 28,05% (2019: 28,10%) interest in Letshego Holdings Limited (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 previous table illustrates the summarised financial information of the group's investment in LHL.

The company has a 25,1% interest in Nico Holdings PLC. The latter group operates in five countries including Malawi, Tanzania, Uganda, Zambia and Mozambique and approximately 70% of Nico Holdings PLC operations remain in Malawi. Nico Holdings PLC 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 it is a public company listed on the Malawi Stock Exchange. The group's interest in Nico Holdings PLC 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 and joint ventures continued

The group through its 100% owned subsidiary BLIL owns 37,62% (2019: 37%) 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 a subsidiary in Zambia. 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 previous table illustrates the summarised financial information of the group's investment in FSG.

The fair value of LHL was P1,204 million (2019: P1,132 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 10-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% (2019: 16%) and cash flows beyond the five-year period are extrapolated using a 3,0% growth rate (2019: 5,0%) that is the same as the long-term average 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 (2019: P106 million) and foreign currency translation losses of P60,1 million (2019: P4,6 million) were recorded. The impairment charge is recorded within share of profits from associates.

The fair value of Nico Holdings PLC was P174 million (2019: P159 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 10-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 33% (2019: 16%) and cash flows beyond the five-year period are extrapolated using a 3,0% growth rate (2019: 5,0%) 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 (2019: impairment reversal of P19 million) and foreign currency translation losses of P7 million (2019: P2,1 million) have been recognised. The impairment charge is recorded within share of profits from associates.

The company has joint control in a company called Teledimo Proprietary Limited, which holds a 100% investment in a short-term insurance company, Botswana Insurance Company Limited (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.

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 Proprietary Limited approved the disposal of 100% of its stake in BIHL Insurance Company Limited t/a Legal Guard to BIC, an associate of the group. BIHL holds 100% of Legal Guard through a direct shareholding. The transaction was effected on 30 September 2019 following approval by relevant regulatory bodies. Legal Guard was classified as part of the general insurance segment by the group. As at 31 December, all balances relating to the transaction have been transferred to BIC as illustrated below:

	December 2020 P'000	September 2019 P'000
Revenue		
Insurance premium revenue	–	30 886
Interest income	–	1 295
Other income	–	36
Total income	–	32 217
Gross insurance claims	–	(9 443)
Expenses for the acquisition of insurance contracts	–	(1 866)
Expenses for marketing and administration	–	(18 456)
Interest expense	–	(261)
Profit before tax	–	2 191
Taxation	–	–
Profit for the year	–	2 191
Other comprehensive income (net of tax)	–	–
Total comprehensive income for the year	–	2 191
The major classes of assets and liabilities of BIHL Insurance Company classified as held of sale as at 31 December 2019 (2019: 30 September) were as follows:		
Assets		
Property and equipment	–	598
Intangible assets	–	3 192
Right-of-use assets	–	2 755
Insurance and other receivables	–	496
Short-term money market instruments	–	39 815
Working capital assets	–	10 427
Current income tax receivable	–	388
Cash and bank balances	–	10 039
Total assets held for sale	–	57 283

4. Investments continued

4.6 Non-current assets held for sale continued

BIHL Insurance Company Limited continued

	December 2020 P'000	September 2019 P'000
Liabilities		
Lease liability	–	2 822
Insurance contracts liabilities	–	25 535
Insurance and other payables	–	6 299
Liabilities classified as held for sale	–	34 657
The net cash flow incurred by BIHL Insurance Company are as follows:		
Cash flow from operating activities	–	6 970
Cash generated from operations	–	6 970
Interest received	–	–
Interest paid	–	–
Tax received/(paid)	–	–
Cash flow utilised in investment activities	–	(1 417)
Money market investment	–	(868)
Purchase of property and equipment	–	(484)
Purchase of intangible assets	–	(65)
Cash flow from financing activities		
Shareholder's loan	–	–
Decrease in cash and cash equivalents	–	5 553
Balance at the beginning of the year	–	4 486
Balance at the end of the period	–	10 039

	2020 P'000	2019 P'000
Revenue		
Insurance premium revenue	–	30 886
Interest income	–	1 295
Other income	–	36
Total income	–	32 216
Gross insurance claims	–	(8 481)
Expenses for the acquisition of insurance contracts	–	(2 827)
Expenses for marketing and administration	–	(18 456)
Interest expense	–	(261)
Profit before tax	–	2 191
Taxation	–	–
Profit for the year from discontinued operations	–	2 191

4. Investments continued

4.6 Non-current assets held for sale continued

BIHL Insurance Company Limited continued

The carrying amounts of the identifiable assets and liabilities of the short-term insurance business as at the date of disposal were:

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Carrying amount of assets	–	57 284	–	21 142
Carrying amount of liabilities	–	(34 657)	–	–
Net assets	–	22 627	–	21 142
Share of net assets	–	22 627	–	21 142
Fair value of consideration received	1 396	32 143	1 396	32 143
Disposal expenses	–	244	–	244
Subordinated shareholder loan	–	5 800	–	–
Profit on disposal	1 396	3 472	1 396	10 757
Carrying amount of assets and liabilities disposed of were as follows:				
Property, plant and equipment	–	598	–	–
Intangible assets	–	3 192	–	–
Right-of-use assets – IFRS 16	–	2 755	–	–
Other amounts receivable	–	496	–	–
Taxation	–	388	–	–
Cash and cash equivalents	–	49 854	–	–
Subordinated shareholders' loan	–	(5 800)	–	–
Insurance contracts	–	(18 852)	–	–
Lease liability – IFRS 16	–	(2 822)	–	–
Insurance payables	–	(162)	–	–
Inter-company payable	–	(499)	–	–
Other amounts payable	–	(6 521)	–	–
Group's share of net assets	–	22 627	–	–
Consideration	1 396	32 143	–	–
Effect on cash flow				
Consideration on disposal of subsidiary	1 396	32 143	1 396	32 143
Cash consideration received	(4 388)	(25 000)	(4 388)	(25 000)
Net movement	(2 992)	7 143	(2 992)	7 143
Contingent consideration as at 1 January	7 143	–	7 143	–
Contingent consideration not yet received	4 151	7 143	4 151	7 143

An additional P1,396 million contingent consideration was booked in the current year to align to a sale condition that says the sum equal to 1,5 times the underwriting profit achieved by Legal Guard in the years ending 31 December 2019 and 2020 will be payable to the seller. As at December 2020, the amount outstanding from the purchaser was P4,1 million (2019: P7,1 million).

5. Insurance and other receivables

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Insurance receivables				
Due from policyholders, agents and brokers	**173 989**	119 740	**–**	–
Due from reinsurers	**34 297**	27 910	**–**	–
Impairment allowances	**(11 782)**	(3 604)	**–**	–
	208 286	147 650	**–**	–
Other receivables	**106 471**	122 233	**4 494**	23 001
Impairment allowances	**(30 558)**	(22 850)	**–**	–
	75 913	99 383	**4 494**	23 001
Insurance and other receivables	**284 199**	247 033	**4 494**	23 001

Insurance receivables are non-interest-bearing and are generally on 30-day terms.

Other receivables relates to fees receivable, commission advances and broker loans.

The ageing analysis of these receivables is as analysed below:

- During the year, 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 has been adjusted to include the effects of COVID-19 and is determined as detailed in note 24.7.

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Impaired	**42 340**	26 454	**–**	–
Neither past due nor impaired	**100 994**	130 897	**4 494**	23 001
Past due but not impaired:	**183 205**	116 136	**–**	–
Less than 30 days	**78 382**	23 186	**–**	–
30 – 60 days	**47 399**	35 298	**–**	–
61 – 90 days	**32 340**	47 440	**–**	–
Over 90 days	**25 084**	10 212	**–**	–
	284 199	247 033	**4 494**	23 001
Impairment movement				
As at 31 December 2020, outstanding premiums with a nominal value of P11,8 million (2019: P3,6 million) were impaired and additionally provided for. Movement in the impairment provision was as follows:				
As at 1 January	**3 604**	3 756	**–**	–
Provision reversed	**–**	(152)	**–**	–
Provision raised	**8 178**	–	**–**	–
As at 31 December	**11 782**	3 604	**–**	–

The carrying values of insurance and other receivables are reasonable approximations of their fair values due to the short-term nature thereof.

5. Insurance and other receivables continued

Other amounts receivable include trade and other receivables, agents and brokers advances. Other amounts receivable are stated after an impairment provision of P30,6 million as at 31 December 2020 (2019: P22,8 million).

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
As at 1 January	22 850	18 876	–	–
Premiums written off	–	–	–	–
Provision raised	7 708	3 974	–	–
As at 31 December	**30 558**	22 850	–	–

6. Stated capital

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 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 (2019: 282 370 652) ordinary shares at no par value	154 936	154 936	154 936	154 936

7. Non-distributable reserves

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Foreign currency translation reserve				
Opening balance	(167 328)	(160 842)	–	–
Transfer to retained earnings	30 600	–	–	–
Movement for the year	(70 212)	(6 486)	–	–
Balance at the end of the year	**(206 940)**	(167 328)	–	–
Consolidation reserve				
Opening balance	(40 696)	(116 232)	–	–
Transfer to retained earnings	–	74 999	–	–
Cost of shares disposed/(purchased)	541	537	–	–
Balance at the end of the year	**(40 155)**	(40 696)	–	–

A consolidation reserve is created for the effect of treasury shares, which represents 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.

7. Non-distributable reserves continued

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
BIHL shares held by policyholders				
Number of shares held as at 31 December	**2 448**	1 408	**–**	–
	2 448	1 408	**–**	–
Market price per share (Pula)	**17,50**	17,50	**–**	–
Non-distributable reserves				
Treasury shares				
Number of shares held as at 31 December				
Shareholders' fund	**–**	–	**–**	–
Opening balance	**(66 419)**	(65 752)	**–**	–
Cost of treasury shares (purchased)/disposed	**(5 241)**	(667)	**–**	–
Balance at the end of the year	**(71 660)**	(66 419)	**–**	–
Share-based payment reserve				
Opening balance	**96 471**	91 822	**26 630**	21 981
Expense arising from equity-settled share-based payment transactions	**3 894**	4 649	**4 819**	4 649
Balance at the end of the year	**100 365**	96 471	**31 449**	26 630
Capital reserve account				
Opening balance	**401 158**	572 627	**9 762**	9 762
Transfer to retained earnings	**61 199**	(171 469)	**(9 762)**	–
Balance at the end of the year	**462 357**	401 158	**–**	9 762

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. For the year ended 31 December 2020, 25% of the operating expenses of Botswana Life Insurance amounts to P182 million (2019: P166 million). At year-end, the group therefore held statutory capital reserves of at least twice the required capital levels based on IPR3L – prescribed capital target.

The life company transfers excess capital to retained earnings as and when applicable.

In the last quarter of 2018, Bifm relinquished its insurance licence with the Regulator to align the business with its asset management licence which was running concurrently. This led to a release of insurance statutory reserves to retained earnings.

7. Non-distributable reserves continued

Solvency reserve account

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening balance	–	1 826	–	–
Transfer from profit for the year	–	(1 826)	–	–
	–	–	–	–

The general insurance company maintains a statutory solvency reserve as required by section 11 of the Insurance Industry Act, 2015. In accordance with the Act, the company transfers every year, before any dividend is declared, a sum equivalent to 10% of gross profits or, where the transfer of 10% of its gross profits would result in the total sum in the reserve exceeding 25% of gross premiums received in the previous financial year, so much as is necessary to raise the total sum in the reserves to a sum equivalent to 25% of the gross premiums received in the previous financial year. The statutory solvency reserve can neither be reduced nor encumbered provided that the registrar of insurance may by notice in writing to the company specify circumstances in which it may be reduced or encumbered. The entity is not required to make the transfer in the event of losses.

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Total non-distributable reserves	**243 967**	223 186	**31 449**	36 392

Change in ownership without loss of control

Bifm implemented a CEE share scheme (the scheme) in 2018, whereby the company issued 25,1% of its ordinary share capital to citizen employees of the company. As a result of the issue of the shares to employees, BIHL group lost part of its effective interest in Bifm Holdings from 100% to 89%. The impact of this dillusion is disclosed in the statement of changes in equity. The transaction has been accounted for as an equity transaction with non-controlling interests.

8. Long-term policyholder liabilities

8.1 Analysis of movement in long-term policyholder liabilities

		GROUP		COMPANY	
	Note	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Income		**3 120 578**	3 191 011	–	–
Premium income		**2 878 189**	2 597 852	–	–
Investment return		**242 389**	593 159	–	–
Outflow		**(2 717 044)**	(2 606 254)	–	–
Policy benefits		**(1 689 071)**	(1 649 328)	–	–
Fees, risk premiums and other payments to shareholders' fund		**(1 027 973)**	(956 926)	–	–
Net movement for the year		**403 534**	584 757	–	–
Balance at the beginning of the year		**10 444 102**	9 859 345	–	–
Balance at the end of the the year	8.3	**10 847 636**	10 444 102	–	–
Total policyholder liabilities		**10 847 636**	10 444 102	–	–

8. Long-term policyholder liabilities continued

8.2 Composition of long-term policyholder liabilities

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Individual business	**10 360 169**	10 069 253	**–**	–
Linked and market-linked liabilities	**2 466 533**	2 192 070	**–**	–
Bonus stabilisation reserve	**18 600**	25 339	**–**	–
Individual stable bonus and market-related business	**25 684**	25 641	**–**	–
Non-participating annuities	**7 671 154**	7 764 720	**–**	–
Annuities – participating	**178 198**	61 483	**–**	–
Employee benefits business	**38 798**	27 165	**–**	–
Non-participating risk business	**38 798**	27 165	**–**	–
Unearned premium reserve*	**448 669**	347 684	**–**	–
Total policyholder liabilities	**10 847 636**	10 444 102	**–**	–

* *Unearned premium reserve is the amount of unexpired premiums on policies or contracts as of a certain date (the total annual premium less the amount earned). In 2019, the unearned premium reserve was included as part of non-participating risk business and has thus been separately disclosed.*

8.3 Maturity analysis of long-term policyholder liabilities

	On demand P'000	<1 year P'000	1 – 5 years P'000	>5 years P'000	Open ended P'000	Total P'000
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**
2019						
Maturity analysis of long-term policyholder liabilities						
Linked and market-related liabilities	–	73 859	409 876	1 708 335	–	2 192 070
Smoothed bonus business	–	5 293	13 382	6 664	–	25 339
Guaranteed business	–	13 648	8 453	3 540	–	25 641
Annuities – guaranteed	–	1 262	19 942	7 743 516	–	7 764 720
Annuities – participating	–	–	–	–	61 483	61 483
Non-participating risk business	–	25 963	132 040	216 846	–	374 850
Total	–	120 025	583 693	9 678 901	61 483	10 444 103

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. Long-term policyholder liabilities continued

8.4 Policy liabilities include the following:

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
HIV/AIDS reserve	12 176	5 725	–	–
Asset mismatch reserve	179 757	47 116	–	–

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.

Refer to note 5 on significant accounting judgements, estimates and assumptions for the assumptions used in determining liability valuations.

8.5 Reinsurance assets

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Balance at the beginning of the year	7 718	6 350	–	–
Movement in reinsurer's share of insurance contract liabilities	1 541	1 368	–	–
Balance at the end of the year	9 259	7 718	–	–

8.6 Movement in life insurance contract liability

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Change in policyholder liabilities under insurance contracts	403 534	584 757	–	–
Change in contract liabilities ceded to reinsurers	1 541	1 368	–	–
Movement in the income statement	405 075	586 125	–	–

8.7 Derivatives instrument

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Foreign exchange swap transaction	2 400	5 810	–	–

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, who 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 BLIL 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 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 BPW 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 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).

9. External investors in consolidated funds

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Balance at the beginning of the year	**2 667 763**	2 661 843	**–**	–
Net investment return	**3 912**	421 258	**–**	–
Benefits paid and withdrawals	**(152 434)**	(415 338)	**–**	–
Balance at the end of the year	**2 519 241**	2 667 763	**–**	–
Segregated funds accounted for off the statement of financial position	**22 641 781**	25 012 584	**–**	–

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%. Refer to note 4.1.

10. Non-controlling interests

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Balance at the beginning of the year	**23 597**	22 008	**–**	–
Share of profit	**5 510**	3 553	**–**	–
Dividend payment	**(3 879)**	(2 177)	**–**	–
Currency translation difference	**–**	213	**–**	–
Balance at the end of the year	**25 228**	23 597	**–**	–

10.1 Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operations	2020 %	2019 %
KYS Investments Limited	Botswana	**37,10**	37,10
Bifm CEE	Botswana	**11,00**	11,00
PPB	Botswana	**26,00**	26,00

In 2018, Bifm disposed of 11% of its shares to the CEE scheme. 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

	2020 P'000	2019 P'000
Accumulated balances of material non-controlling interest		
KYS Investments Limited	**16 184**	16 257
Bifm CEE	**9 044**	7 341
	25 228	23 598
Profit/(loss) allocated to material non-controlling interest		
KYS	**358**	638
Bifm	**5 152**	2 915
	5 510	3 553

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 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)**	**–**	**–**
Summarised profit or loss for 2019			
Revenue	538 467	1 734	–
Administrative expenses	(499 876)	(15)	–
Profit before tax	38 591	1 719	–
Income tax	(6 929)	–	–
Profit for the year from continuing operations	31 662	1 719	–
Total comprehensive income	31 662	1 719	–
Attributable to non-controlling interests	2 915	638	–
Dividends paid to non-controlling interests	(2 176)	–	–

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 2020			
Trade receivables and cash and bank balances (current)	**111 196**	**2 485**	**–**
Property 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**	**40 354**	**(2 975)**
Attributable to:			
Equity holders of the parent	**4 960 514**	**24 170**	**(2 975)**
Non-controlling interests	**9 044**	**16 184**	**–**
Summarised statement of financial position as at 31 December 2019			
Trade receivables and cash and bank balances (current)	287 012	2 485	–
Property, plant and equipment and other non-current financial assets (non-current)	41 283	38 034	–
Trade and other payables (current)	(38 104)	(165)	(2 975)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(21 530)	–	–
Total equity	268 661	40 354	(2 975)
Attributable to:			
Equity holders of the parent	261 320	24 097	(2 975)
Non-controlling interests	7 341	16 257	–

	Bifm P'000	KYS P'000	PPB P'000
Summarised cash flow information for the year ended 31 December 2020			
Operating	**(98 304)**	**(6 434)**	**–**
Investing	**1 620 178**	**7 490**	**–**
Financing	**–**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**1 521 874**	**1 056**	**–**
Summarised cash flow information for the year ended 31 December 2019			
Operating	44	47	(17 048)
Investing	(607)	–	–
Financing	–	(624)	–
Net increase/(decrease) in cash and cash equivalents	(563)	(577)	(17 048)

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 2020 P'000	Deferred tax liability 2020 P'000	Profit or loss 2020 P'000	Deferred tax asset 2019 P'000	Deferred tax liability 2019 P'000	Profit or loss 2019 P'000
Balance at the beginning of the year	–	(22 161)	–	–	(13 695)	–
Charge to the income statement	–	2 640	2 640	–	(8 466)	(8 466)
Balance at the end of the year	–	(19 521)	2 640	–	(22 161)	(8 466)
Representing:						
Accelerated depreciation for tax purposes	–	4 204	(5 282)	–	9 486	1 466
Unrealised gains on shareholders' investments	–	18 746	4 166	–	14 580	8 748
SPA (Sanlam Pan Africa) recharges deferred tax	–	(321)	–	–	(321)	(164)
Right-of-use assets IFRS 16	–	(3 107)	(1 524)	–	(1 583)	(1 583)

No deferred tax asset was recognised in the holding company due to the assessable tax losses amounting to P1,6 million (2019: P5,4 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	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Insurance payables				
Due to agents and brokers	44 149	50 825	–	–
Due to reinsurers	24 872	30 466	–	–
Life insurance claims payable	226 438	167 905	–	–
Premiums received in advance	83 629	83 631	–	–
Other payables				
Other accounts payable	246 819	20 926	27 081	22 956
	625 907	353 753	27 081	22 956

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; and
- Short-term insurance payables are settled within 30 days.

Other payables relates to payroll accruals – leave pay, bonuses and gratuities.

13. Premium revenue

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Life insurance				
Individual life	2 048 089	1 920 274	–	–
Gross premium	2 086 420	1 956 103	–	–
– Recurring premium	1 382 629	1 297 071	–	–
– Single	703 791	659 032	–	–
Premium ceded to reinsurers	(38 331)	(35 829)	–	–
Group and employee benefits	831 536	677 578	–	–
Gross premium	850 235	694 910	–	–
– Recurring premium	252 759	213 538	–	–
– Single	597 476	481 372	–	–
Premium ceded to reinsurers	(18 699)	(17 332)	–	–
Total	2 879 625	2 597 852	–	–

13.1 Revenue from contracts with customers

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Contract revenue earned over time				
Fee income	108 254	97 733	–	–
Contract revenue earned at a point in time				
Performance fees	681	681	–	–
	108 935	98 414	–	–

14. Investment returns

14.1 Shareholders' interest income

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Interest income using EIR	6 838	11 165	2 397	2 417
	6 838	11 165	2 397	2 417

14. Investment returns continued

14.2 Interest income on financial assets at fair value through profit or loss

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Shareholders' interest income	10 302	14 401	–	–
	10 302	14 401	–	–
Policyholders' interest income				
Policyholder insurance contracts	625 488	675 586	–	–
Policyholder investment contracts	23 201	107 713	–	–
	648 689	783 299	–	–
Total interest income	658 991	797 700	–	–

14.3 Investment income

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Shareholders' investment income				
Rental income on investment properties	17 814	10 505	–	–
Other income	–	–	583	367
Dividends	2 358	9 653	412 813	371 218
Investment management fees	–	–	–	–
	20 172	20 158	413 396	371 585
Policyholders' investment income				
Policyholder insurance contracts				
Rental income on investment properties	16 447	16 512	–	–
Dividends	18 553	38 597	–	–
Investment management fees	–	–	–	–
	35 000	55 109	–	–
Policyholder investment contracts				
Rental income on investment properties	–	34 408	–	–
Dividends	12 589	98 894	–	–
	12 589	133 302	–	–
Total policyholders' investment income	47 589	188 411	–	–
Total investment income*	67 761	208 569	413 396	371 585

* *Restated, refer to the footnote on the income statement.*

14. Investment returns continued

14.4 Net losses from financial assets held at fair value through profit or loss

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Shareholders' net losses from financial assets held at fair value through profit or loss				
Shareholder				
Fair value losses on investments	**(26 769)**	(24 190)	**–**	–
Foreign exchange gains	**2 461**	67 601	**–**	–
	(24 308)	43 411	**–**	–
Policyholders' net gains from financial assets held at fair value through profit or loss				
Insurance contracts				
Fair value (loss)/gains on investments	**(384 940)**	6 130	**–**	–
Foreign exchange gains/(losses)	**4 323**	(106 691)	**–**	–
	(380 617)	(100 561)	**–**	–
Investment contracts				
Fair value (losses)/gains on investments	**(31 878)**	113 148	**–**	–
	(31 878)	113 148	**–**	–
Total policyholder net (losses)/gains from financial assets held at fair value through profit or loss	**(412 495)**	12 587	**–**	–
Total net losses from financial assets held at fair value through profit or loss	**(436 803)**	55 998	**–**	–

15. Net insurance benefits and claims

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Life insurance contracts				
Individual life				
Death and disability claims	**140 657**	114 561	**–**	–
Maturity claims	**245 118**	280 954	**–**	–
Policy surrenders	**142 073**	171 310	**–**	–
Annuities	**622 419**	587 545	**–**	–
Reinsurance share on death and disability claims	**(16 110)**	(8 288)	**–**	–
Total individual life	**1 134 157**	1 146 082	**–**	–
Group and employee benefits				
Death and disability claims	**304 606**	283 152	**–**	–
Policy surrenders	**234 198**	211 806	**–**	–
Reinsurance share on death and disability claims	**(23 130)**	(26 292)	**–**	–
Total group and employee benefits	**515 674**	468 666	**–**	–
Total net insurance benefits and claims	**1 649 831**	1 614 748	**–**	–

16. Administration expenses and impairments

16.1 Administration expenses

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Auditor's remuneration				
– Audit fee current period	4 386	4 506	655	590
Depreciation of property and equipment	7 581	8 720	730	810
Amortisation of intangible assets	7 071	6 862	246	228
Directors' fees				
– For services as directors	3 943	4 350	2 429	2 804
– For managerial services	21 302	19 543	10 555	9 162
– Pension contribution	1 734	1 237	808	560
Depreciation of right-of-use assets	5 253	4 872	2 209	2 209
Staff costs	175 996	143 760	27 559	26 196
Salaries and wages for administration staff	148 998	121 456	21 312	19 787
Pension costs	15 296	13 761	1 428	1 760
Share-based payment	11 702	8 543	4 819	4 649
Investment management fees*	(37 482)	(36 975)	–	–
Average number of employees	363	357	21	20

* *Restated, refer to the footnote on the income statement.*

16.2 Impairments

	Note	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Impairment expense of investment in subsidiaries and associates	4.5	–	86 768	–	–
Impairment of loan at amortised cost	4.3	3 170	–	–	–
Impairment of premiums receivable		8 178	–	–	–
ECLs on brokers and agents loans		7 708	3 974	–	–
		19 056	90 742	–	–

17. Taxation

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Current tax	(105 782)	(93 058)	–	–
Deferred tax	2 640	(8 466)	–	–
Withholding tax on dividends	(25 116)	2 605	(9 597)	(930)
Capital gains tax	(406)	–	–	–
Tax charge	(128 664)	(98 919)	(9 597)	(930)
Tax reconciliation				
Reconciliation between tax expense and accounting profit at the standard tax rate				
Profit before tax	666 173	537 292	385 630	356 228
Tax calculated at a tax rate of 22%	146 558	118 204	84 839	78 370
Expenses not deductible for tax	16 313	17 242	6 943	3 910
Income not subject to tax	(59 729)	(33 922)	(91 782)	(82 280)
Withholding tax on dividends	25 116	(2 605)	9 597	930
Capital gains tax	406	–	–	–
Tax charge	128 664	98 919	9 597	930

Income not subject to 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 P1,6 million (2019: P5,4 million). In terms of Botswana tax laws, the amounts can be carried for a period not exceeding five years.

17.1 Tax paid

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Opening balance	(5 258)	2 428	(216)	738
Tax charge	131 304	90 453	9 597	930
Withholding tax paid at source	(23 644)	–	(8 291)	–
Closing balance	(31 736)	5 258	382	216
Tax paid	70 666	98 139	1 472	1 884

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 2020 P'000	GROUP 2019 P'000
Net profit attributable to ordinary equity holders of the parent for basic earnings and diluted earnings	**531 999**	434 820
Number of shares in issue	**282 371**	282 371
Staff share scheme and treasury shares	**(6 347)**	(6 333)
Weighted average number of shares used for calculating basic earnings per share	**282 371**	282 371
Weighted number of dilutive options	**(6 347)**	(6 333)
Weighted average number of shares used for calculating diluted earnings per share	**276 024**	276 038
Earnings per share (thebe) attributable to ordinary equity holders of the parent		
– Basic	**193**	158
– Diluted	**193**	158
Earnings per share (thebe) for continuing operations		
– Basic	**193**	158
– Diluted	**193**	157
Earnings per share (thebe) for discontinued operations		
– Basic	**–**	1
– Diluted	**–**	1

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 (gross of withholding tax)

	2020 P'000
Declared and paid during the year	
Final dividend for the year to 31 December 2019: 59 thebe (2018: 67 thebe)	**166 599**
Special dividend for the year to 31 December 2019: 11 thebe (2018: 16 thebe)	**31 061**
Interim dividend for the six months to 30 June 2020: 76 thebe (2019: 57 thebe)	**213 686**
	411 346
Dividend proposed after year-end not recognised in the annual financial statements	
Final dividend for the year to 31 December 2020: 65 thebe (2019: 59 thebe)	**183 541**
Special dividend for the year to 31 December 2020: nil thebe (2019: 11 thebe)	**–**
Dividend proposed for approval at the annual general meeting (before withholding tax – not recognised as a liability as at 31 December)	**183 541**

20. Related party disclosures

The consolidated annual financial statements include the annual financial statements of BIHL, subsidiaries, associates and joint ventures as listed in the following table:

	Country of incorporation	% of interest held 2020	2019	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 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
Letshego Guard Proprietary Limited	Botswana	**100**	100	Dormant
Indirectly held				
Botswana Insurance Fund Management Limited	Botswana	**89**	89	Asset management
Bifm Holdings and Financial Services Limited	Isle of Man	**100**	100	Holding company
Bifm Capital Investment Fund 1	Botswana	**100**	100	Corporate finance
Bifm Unit Trusts Proprietary Limited	Botswana	**100**	100	Unit trusts
Collective investment undertaking				
Balanced Prudential Fund	Botswana	**21**	23	Collective investment undertaking
Pula Money Market	Botswana	**35**	28	Collective investment undertaking
Local Equity Funds	Botswana	**–**	78	Collective investment undertaking
Bifm Global Balanced Conservative Fund B1	Botswana	**98**	98	Collective investment undertaking
Bifm Local Balanced Conservative Fund Class B	Botswana	**98**	98	Collective investment undertaking
Bifm Offshore Bond Fund B1	Botswana	**56**	47	Collective investment undertaking
Bifm Off Money Market Fund B1	Botswana	**17**	73	Collective investment undertaking
Bifm Off Private Equity B1	Botswana	**35**	94	Collective investment undertaking
Bifm Local Bond Fund B1	Botswana	**54**	71	Collective investment undertaking
Bifm Local Equity Fund B1	Botswana	**69**	66	Collective investment undertaking
Bifm Local Property B1	Botswana	**39**	39	Collective investment undertaking
Bifm Local Money Market B1	Botswana	**9**	30	Collective investment undertaking
Letlotlo	Botswana	**94**	100	Collective investment undertaking
Yamasa	Botswana	**82**	100	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.

20. Related party disclosures continued

20.1 Related party transactions

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Transactions on insurance contracts (expense)/income				
Sanlam Limited (59% shareholder of BIHL)				
– Recoveries, travel claims and other meeting expenses	**3 536**	4 569	**–**	–
Letshego Holdings Limited (associate company of BIHL)				
– Credit life income	**198 582**	175 737	**–**	–
– Claims paid	**(164 371)**	(165 345)	**–**	–
Funeral Services Group Limited (associate company of BIHL)				
– Share of income	**8 025**	6 093	**–**	–
Summary of transactions with related parties				
Shared expenses				
Botswana Life Insurance Limited (100% owned by BIHL)	**–**	–	**5 308**	4 530
Bifm (74,9% owned by BIHL)	**–**	–	**1 219**	2 054
BIHL Unit Trusts (100% owned by BIHL)	**–**	–	**70**	179
BIHL Insurance Company Limited (50% owned by BIHL)	**–**	–	**–**	1 061
Dividends received				
Botswana Life Insurance Limited (100% owned by BIHL)	**–**	–	**321 967**	286 284
Bifm (74,9% owned by BIHL)	**–**	–	**70 115**	65 559
KYS Investments Proprietary Limited (63% owned by BIHL)	**–**	–	**2 534**	5 173
Investment returns				
Balanced Prudential Fund	**1 805**	140	**–**	–
Pula Money Market	**(2 604)**	(880)	**–**	–
Local Equity Funds	**–**	(576)	**–**	–
Bifm Global Balanced Conservative Fund B1	**43**	31	**–**	–
Bifm Local Balanced Conservative Fund Class B	**22**	44	**–**	–
Bifm Offshore Bond Fund B1	**25 664**	33 334	**–**	–
Bifm Off Money Market Fund B1	**–**	(1)	**–**	–
Bifm Off Private Equity B1	**(11 728)**	(23 513)	**–**	–
Bifm Local Bond Fund B1	**(2 633)**	4 530	**–**	–
Bifm Local Equity Fund B1	**(182)**	(490)	**–**	–
Bifm Local Property B1	**13 676**	12 683	**–**	–
Bifm Local Money Market B1	**3 750**	2 334	**–**	–
Letlotlo	**333**	4 004	**–**	–
Yamasa	**800**	6 520	**–**	–

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	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Amount receivable				
Botswana Life Insurance Limited (100% owned by BIHL)	–	–	–	560
Botswana Insurance Fund Management (100% owned by BIHL)	–	–	30	–
BIHL Trust	–	–	–	217
	–	–	30	777
Amount payable				
Botswana Life Insurance Limited (100% owned by BIHL)	–	–	(562)	–
Botswana Insurance Fund Management (100% owned by BIHL)	–	–	–	(708)
BIHL Trust	–	–	(383)	(708)
Letshego Guard Proprietary Limited (100% owned by BIHL)	–	–	–	(14 737)
Sanlam (59% shareholder of BIHL)	3 536	15 769	–	–
	3 536	15 769	(945)	(16 153)

Year-end balances arising from transactions on insurance contracts

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Net due from:				
Balanced Prudential Fund	4	3 634	–	–
Pula Money Market	226 682	173 762	–	–
Local Equity Funds	–	10 891	–	–
Bifm Global Balanced Conservative Fund B1	1 409	1 371	–	–
Bifm Local Balanced Conservative Fund Class B	1 287	1 265	–	–
Bifm Offshore Bond Fund B1	52	304	–	–
Bifm Off Money Market Fund B1	2 031	10 117	–	–
Bifm Off Private Equity B1	31 470	213 162	–	–
Bifm Local Bond Fund B1	19 300	163	–	–
Bifm Local Equity Fund B1	60 017	945	–	–
Bifm Local Property B1	–	211	–	–
Bifm Local Money Market B1	11 578	94 397	–	–
Letlotlo	–	4 004	–	–
Yamasa	–	6 520	–	–
	353 829	520 744	–	–

The above transactions were carried out on commercial terms and conditions and at market prices.

20. Related party disclosures continued

20.1 Related party transactions continued

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. For the year ended 31 December 2019, the group did not record an impairment of receivables relating to amounts owed by related parties (2019: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. The entire balance is aged under 12 months and forward-looking factors have been considered in the ECL assessment, however, the impact was immaterial.

Transactions with key management

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Compensation of key management personnel of the group				
Short-term employee benefits	**17 925**	14 678	**10 366**	9 298
Pension costs – defined contribution plans	**1 734**	1 237	**1 033**	727
Share-based payments	**3 378**	4 864	**2 752**	2 458
	23 037	20 779	**14 151**	12 483

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 2020	Number of shares 2019
Directors' shareholding in the group		
B Dambe-Groth	**23 923**	23 923
M Mpugwa	**5 569**	5 569
C Chauhan	**75 020**	75 020
TC Masire	**591**	591
C Lesetedi	**148 550**	144 938
K Mukushi	**85 780**	–
	339 433	250 041

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Non-executive directors' remuneration				
For services as directors	**3 943**	4 236	**2 429**	2 804
	3 943	4 236	**2 429**	2 804

20. Related party disclosures continued

20.1 Related party transactions continued

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	Salary P'000	Bonus P'000	Other benefits P'000	Total P'000
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
2019					
C Lesetedi	12	3 095	1 350	1 700	6 145
K Mukushi	12	2 131	915	530	3 576
Total executive directors		5 226	2 265	2 231	9 722

Long-term emoluments

Share purchase plans	Number of options	Number of grants – CSP	Strike price (Pula)	Exercised	Outstanding	Expiry date
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	
2019						
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	–	–	71 423	2027
Granted 2018	–	102 426	–	–	102 426	2028
Granted 2019	–	43 468	–	–	43 468	2029
Total	231 413	581 014		(638 578)	173 849	

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	Outstanding	Expiry date
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	
2019						
K Mukushi						
Granted 2016	–	173 227	17,50	(173 227)	–	–
Granted 2017	–	85 780	–	–	85 780	2027
Granted 2018	–	51 213	–	–	51 213	2028
Total	–	310 220		(173 227)	136 993	

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 P15,3 million (2019: P12,4 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:

- Share option scheme; and
- Conditional share plan.

Share option scheme

All employees are eligible to participate in the scheme based on superior performance.

BIHL grants 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 account 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 2020 is P0,581 million (2019: P0,752 million). The expense recognised in the income statement is Pnil (2019: Pnil).

21. Employee benefits continued

Share-based payment continued

Share option scheme continued

Movement during the year	2020 Number of share options '000	2020 Weighted average exercise price '000	2019 Number of share options '000	2019 Weighted average exercise price '000
Outstanding at the beginning of the year	**63**	**11,48**	65	11,60
Exercised	**(13)**	**11,00**	(2)	11,49
Outstanding at the end of the year	**50**	**11,75**	63	11,48
Exercisable as at 31 December	**50**	**11,75**	63	11,48

The were no options granted during the year (2019: Pnil). The weighted average value of options granted during the year was Pnil (2019: Pnil).

The weighted average remaining contractual life for the shares outstanding as at 31 December 2020 is one year (2018: two years).

The range of exercise prices for options outstanding at the end of the year was P11,00 to P11,75 (2019: P11,00 to 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 2020 is P100 million (2019: P96,5 million). The expense recognised in the income statement is P11,2 million (2019: P,5 million).

Movement during the year	2020 Number of share options '000	2020 Weighted average exercise price '000	2019 Number of share options '000	2019 Weighted average exercise price '000
Outstanding at the beginning of the year	**1 368**	**10,29**	1 311	10,29
Granted	**1 054**	**17,50**	643	17,50
Forfeited	**–**	**–**	(20)	18,54
Exercised	**(725)**	**18,54**	(565)	17,55
Outstanding at the end of the year	**1 697**	**17,50**	1 368	13,79

The weighted average remaining contractual life for the grants outstanding as at 31 December 2020 is three years (2019: three years).

The number of conditional shares granted during the year was 1 054 108 100 (2019: 643 100).

The weighted average fair value exercise price for grants outstanding at the end of the year was P17,50 (2019: P14,10).

21. Employee benefits continued

Share-based payment continued

Conditional share plan continued

The following assumptions have been used in the valuation model of the share option scheme:

	2020 %	2019 %
Dividend yield	**7,30**	6,51
Volatility	**–**	1,52
Risk-free interest rate	**5,38**	5,38
Spot price	**17,50**	17,50
% of remaining employees	**100,00**	80,00

The following assumptions have been used in the valuation model of the CSP:

	2020 %	2019 %
Dividend yield	**7,30**	6,51
Spot price	**17,50**	17,50
% of remaining employees	**100,00**	80,00

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, we 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, and 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.

21. Employee benefits continued

Share-based payment continued

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.

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 grants 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 P3 million (2019: P0,897 million).

	2020		2019	
Movement during the year	**Number of unit options '000**	**Weighted average exercise price P'000**	**Number of share options '000**	**Weighted average exercise price P'000**
Outstanding at the beginning of the year	960	2,97	960	2,97
Granted	1 658	2,90	–	–
Outstanding at the end of the year	2 618	2,93	960	2,97
Exercisable as at 31 December	**2 618**	**2,93**	960	2,97

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 P2,90 (2019: nil and 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 P5,4 million (2019: P1,79 million) arising from the Bifm CEE scheme.

22. Cash generated from operations

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Profit before tax from continuing operations	666 173	537 292	385 630	356 228
Non-cash flow items	203 081	(143 538)	7 254	(12 519)
Depreciation	7 581	8 720	730	810
Amortisation	7 071	6 862	246	228
Depreciation of right-of-use asset	5 253	4 872	2 209	2 209
Impairment expense/(reversal) of associates/subsidiary	–	86 768	–	(10 387)
Unrealised fair value gains on shareholder assets	24 308	23 684	–	–
Net unrealised losses/(gains) from financial assets held at fair value through profit or loss	412 495	(12 587)	–	–
Unrealised fair value gains on investment properties and property funds	(7 526)	(39 037)	–	–
Interest expense on leases (IFRS 16)	861	1 110	646	729
Profit on disposal of subsidiary	(1 396)	(3 472)	(1 396)	(10 757)
Equity-accounted earnings	(257 268)	(229 001)	–	–
Share-based payments	11 702	8 543	4 819	4 649
Items disclosed separately	(55 288)	(241 726)	(415 210)	(373 635)
Interest income	(40 341)	(133 179)	(2 397)	(2 417)
Dividend income	(14 947)	(108 547)	(412 813)	(371 218)
Working capital changes:	479 775	611 837	(24 372)	14 610
Net (increase)/decrease in insurance and other receivables	(37 166)	64 451	(2 713)	25 656
Net increase/(decrease) in long-term policyholder liabilities	403 534	(2 077 086)	–	–
(Decrease)/increase in external investors in consolidated funds	(148 522)	2 667 763	–	–
(Increase)/decrease in reinsurance assets	(1 541)	(1 368)	–	–
Net (decrease)/increase in insurance and other payables	263 470	(41 923)	(21 659)	(11 046)
Cash generated from operations	1 293 741	763 865	(46 698)	(15 316)

23. Cash and bank

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Cash and bank	171 225	88 096	68 412	73 999
Funds on deposit	68 412	73 999	–	–
Cash and cash equivalents	239 637	162 095	68 412	73 999

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% (2019: 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
Financial 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.

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% and 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 not 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
2020				
BWP	**0,75**	**277 225**	**2 079**	**1 622**
BWP	**(0,75)**	**277 225**	**(2 079)**	**(1 622)**
USD	**0,50**	**48 010**	**240**	**187**
USD	**(0,50)**	**48 010**	**(240)**	**(187)**
2019				
BWP	0,75	416 632	3 125	2 438
BWP	(0,75)	416 632	(3 125)	(2 438)
USD	0,50	22 491	112	87
USD	(0,50)	22 491	(112)	(87)

COMPANY

	Change in variables %	Value P'000	Increase/ (decrease) in profit before tax P'000	Increase/ (decrease) in equity P'000
2020				
BWP	**0,50**	**68 412**	**342**	**267**
BWP	**(0,50)**	**68 412**	**(342)**	**(267)**
2019				
BWP	0,50	73 999	370	289
BWP	(0,50)	73 999	(370)	(289)

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
2020	
Equity instruments	**32 903**
Money market instruments	**3 139**
Bonds	**5 614**
Foreign currency exposure	**41 656**
Average rate	**10,87**
Closing rate	**10,58**
2019	
Equity investments	213 162
Money market instruments	22 152
Bonds	339
Foreign currency exposure	235 653
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
2020				
USD	**2**	**41 656**	**833**	**650**
USD	**(2)**	**41 656**	**(833)**	**(650)**
2019				
USD	5	235 653	7 070	5 515
USD	(5)	235 653	(7 070)	(5 515)

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
2020				
Botswana Stock Exchange	**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**
2019				
Botswana Stock Exchange	3	14 693	441	344
Listed property companies – Botswana	3	210	6	5
World Equity Index	1	213 162	2 132	1 663
Botswana Unit Trusts	3	10 891	327	255
Total exposure		238 956	2 906	2 267

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 assets to hold 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 economy in which our funds are invested (see 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	
	2020 Total P'000	2019 Total P'000
Long-term reinsurance assets	**9 259**	7 718
Bonds		
– Government	**5 185 414**	5 023 380
– Corporate (listed, unlisted)	**4 096 673**	3 584 799
Money market instruments	**2 109 039**	2 834 067
Loans at amortised cost	**36 132**	50 000
Insurance and other receivables	**284 199**	247 033
Cash, deposits and similar securities	**239 637**	162 095
Maximum credit risk exposure	**11 960 353**	11 909 092

	COMPANY	
	2020 Total P'000	2019 Total P'000
Other receivables	**4 494**	23 001
Related party balances	**30**	777
Cash, deposits and similar securities	**68 412**	73 999
Maximum credit risk exposure	**72 936**	97 777

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.

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 (2019: 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
2020				
Long-term reinsurance assets	9 259	–	9 259	9 259
Government bonds	4 596 523	4 596 523	–	4 596 523
Corporate bonds and other	4 685 564	–	4 685 564	4 685 564
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**	**4 596 523**	**7 363 830**	**11 960 353**
2019				
Unlisted bonds				
Long-term reinsurance assets	7 718	–	7 718	7 718
Government bonds	4 585 831	4 585 831	–	4 585 831
Corporate bonds and other	4 022 348	–	4 022 348	4 022 348
Money markets	2 834 067	–	2 834 067	2 834 067
Other loans at amortised cost	50 000	–	50 000	50 000
Insurance and other receivables	247 033	–	247 033	247 033
Cash and bank balances	162 095	–	162 095	162 095
Total assets	11 909 092	4 585 831	7 323 261	11 909 092

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.

	2020		2019	
	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	62 563	67 966
Allied Investments Limited	211 930	120 000	211 930	142 321
Babereki Investments Proprietary Limited	38 427	50 000	38 427	50 000
Bifm Local Bond	–	–	–	361 506
Bifm Offshore bond	–	–	–	167 283
Botho Park	190 000	26 000	190 000	34 984
Botswana Savings Bank	–	50 000	–	60 296
Cash Bazaar Holdings	150 000	100 000	150 000	121 757
First National Bank of Botswana	–	517 172	–	518 145
Flip Coin Proprietary Limited	165 416	83 312	165 416	96 216
Lonrho Hotels Botswana	30 000	30 000	30 000	33 156
Meybeernick Investment Proprietary Limited	–	–	–	114 375
Prime Time Holdings	81 200	65 000	81 200	79 628
RDC Properties Limited	195 000	125 000	195 000	162 997
Real People Investment Holdings	–	38 403	–	39 488
Stanbic Bank PLC	–	977 815	–	977 815
Stanbic Bank Botswana Limited (SBL061)	–	49 144	–	–
Standard Bank	–	449 986	–	276 258
The FAR Property Company Limited	136 075	100 000	136 075	110 067
Three Partners Resort Proprietary Limited	558 860	63 430	558 860	76 019
Debt Participation Capital Fund (DPCF006)	–	19 190	–	22 358
Debt Participation Capital Fund (DPCF007)	–	12 070	–	16 028
Water Utilities Corporation (WUC002)	–	100 000	–	129 682
Total	1 819 471	3 139 022	1 819 471	7 631 755

Impairment assessment

Accounting policy note 7 on financial liabilities – 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.

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; and
- 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 as at 31 Dec 2020 P'000	Balances > 90 days P'000	Provision %	Loss allowance* P'000
Premium debtors and reinsurance debtors					
Outstanding premiums	Incurred loss	**173 989**	**11 782**	**100**	**11 782**
Due from reinsurers	Incurred loss	**34 297**	**–**	**100**	**–**
					11 782

	Impairment method	Balance as at 31 Dec 2019 P'000	Balances > 90 days P'000	Provision %	Loss allowance* P'000
Premium debtors and reinsurance debtors*					
Outstanding premiums	Incurred loss	119 740	3 604	100	3 604
Due from reinsurers	Incurred loss	27 910	–	100	–
					3 604

* *In the prior year, BIHL group recognised an impairment loss of P3,6 million on premium debtors and reinsurance receivables using the ECL model under IFRS 9. This was not in compliance with IFRS as management did not change the accounting policy on impairment on premium debtors and reinsurance receivables upon the adoption of IFRS 9. In the current year, management corrected the error by adopting the original incurred loss model as this is compliant with IFRS 4.*

Incurred loss model allows for provision based on actual defaults as reporting date.

The outstanding premiums and amounts were assessed at the end of the 2020 year 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. In the prior year, the outstanding balances closed with an accumulated impairment provision of P3,6 million and the only movement for that year being a reversal of impairment of P0,15 million. The current year assessment resulted in the above credit loss allowance mainly due to COVID-19.

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); and
- Stage 3: For exposures where the balances are credit impaired (non-performing), the ECLs are provided for over the remaining life of the exposure (a lifetime ECL).

Broker loans and agent advances/commissions	Impairment method	Impairment method P'000	Balance as at 31 Dec 2019 %	Exposed to default P'000	LGD %	ECL (lifetime) P'000
Broker loans	GA/stage 2	1 602	**57,80**	926	100	926
Advances/loans to brokers exposed to default	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.

The gross carrying amounts of the other receivables in the current year were lower than the prior year by P15,8 million.

Loan at amortised cost

	Impairment method	Impairment method P'000	Balance as at 31 Dec 2020 %	Exposed to default P'000	LGD %	ECL (lifetime) P'000
BOPEU loan (note 8.5)	GA/stage 2	39 302	**44,80**	17 607	18	3 170
						3 170

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.

24. Risk management continued

24.6 Credit risk continued

Loan at amortised cost continued

Broker loans and agent advances/commission	Impairment method	Impairment method P'000	Balance as at 31 Dec 2019 %	Exposed to default P'000	LGD %	ECL (lifetime) P'000
Broker loans	GA/stage 2	1 226	**73,00**	895	100	895
Broker advances	GA/stage 2	15 292	**99,39**	15 199	49	7 447
Loans to agents	GA/stage 2	16 784	**100,00**	16 784	77	12 987
						21 329
Other receivables						
Staff debtors	GA/stage 2	1 216	**100,00**	1 216	25	304
Sundry debtors	GA/stage 2	2 434	**49,99**	1 217	100	1 217
						1 521
Total estimated credit losses as at 31 December 2019						22 850

Related party receivables

For the year ended 31 December 2020, the group has not recorded any impairment of receivables relating to amounts owed by related parties (2019: Pnil). Related party balances are all cleared within 60 days and as at 31 December 2019, 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 P'000	On demand P'000	Open ended P'000	Total P'000
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**	**–**	**–**	**–**	**14 015**
	28 026	**–**	**–**	**–**	**–**	**28 026**
2019						
Financial assets						
Insurance and other receivables	23 001	–	–	–	–	23 001
Related party balances	777	–	–	–	–	777
Cash, deposits and similar securities	73 999	–	–	–	–	73 999
	97 777	–	–	–	–	97 777
Financial liabilities						
Insurance and other payables	22 956	–	–	–	–	22 956
Related party balances	15 445	–	–	–	–	15 445
IFRS 16 – Lease liability	2 249	7 886	6 069	–	–	16 205
	38 401	–	–	–	–	38 401

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	Open ended 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	13 996 320	1 654 241	1 009 100	10 161 277	–	1 069 181	13 881 016

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	Open ended P'000	Total P'000
2019							
Financial assets							
Long-term reinsurance assets	7 718	7 718	–	–	–	–	7 718
Investment in unlisted property companies	729 294	–	–	–	–	729 294	729 294
Bonds (Government, public authority, listed and unlisted corporates)	8 608 179	2 348 273	1 699 392	6 637 341	–	–	10 685 005
Equity investments	1 784 202	–	–	–	–	1 784 202	1 784 202
Money market instruments	2 834 067	2 834 067	–	–	–	–	2 834 067
Other loans at amortised cost	50 000	6 000	27 729	54 616	–	–	88 345
Insurance and other receivables	247 033	247 033	–	–	–	–	247 033
Cash, deposits and similar securities	162 095	162 095	–	–	–	–	162 095
Total undiscounted assets	14 422 588	5 605 186	1 727 121	6 691 957	–	2 513 496	16 537 759
Financial liabilities							
Long-term policyholder liabilities	10 444 102	120 024	583 693	9 678 901	–	61 483	10 444 102
External investors in consolidated funds	2 667 763	913 125	264 029	424 996	–	943 511	2 545 661
Related party balances	15 769	15 769	–	–	–	–	15 769
Insurance and other payables	353 753	353 753	–	–	–	–	353 753
IFRS 16 – Lease liability	21 431	5 692	16 478	1 672	–	–	23 842
Total undiscounted liabilities	13 502 818	1 408 363	864 201	10 105 570	–	1 004 994	13 383 127

Policyholders' insurance liabilities are allocated into the maturity profiles based on the estimated present value of claims obtained through an actuarial modelling process.

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.

24. Risk management continued

24.8 Insurance risk continued

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 shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	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
	–	2 519 241	–	2 519 241

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
2019				
Non-financial assets				
Investment properties – physical properties	–	–	121 615	121 615
Financial assets				
Investment properties – investment in unlisted property companies	–	–	729 294	729 294
Bonds	4 585 831	–	4 022 349	8 608 180
– Government	4 585 831	–	–	4 585 831
– Corporate bonds – unlisted	–	–	4 022 349	4 022 349
Money market instruments	–	2 834 067	–	2 834 067
Equity investments	1 516 716	–	267 485	1 784 201
	6 102 547	2 834 067	5 140 743	14 077 357
Financial liabilities				
External investors in consolidated funds	–	2 667 763	–	2 667 763
Derivatives instrument	–	5 810	–	5 810
	–	2 667 763	–	2 667 763

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
2020							
Level 3 financial assets							
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	–	–	113 002	331 979
Transfer from investment properties	–	111 455	–	–	–	–	111 455
Disposals	(111 455)	–	(91 632)	–	–	(67 922)	(271 009)
Closing balance	10 160	1 055 880	178 857	–	–	4 685 565	5 930 462
2019							
Level 3 financial assets							
Opening balance	117 344	294 132	879 840	–	393 951	3 630 124	5 315 391
Total gains/(loss) in comprehensive income	4 271	39 037	(9 521)	–	15 160	194 777	243 724
Acquisitions	–	400 396	–	–	–	482 724	883 120
Disposals	–	–	(602 834)	–	(409 111)	(285 277)	(1 297 221)
Transfer from investment properties	–	(4 271)	–	–	–	–	(4 271)
Closing balance	121 615	729 294	267 485	–	–	4 022 349	5 140 743

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	
	2020 P'000	2019 P'000
Total gains or losses included in profit or loss for the period	617 293	208 031
Total unrealised gains or losses included in profit or loss for the period for assets held at the end of the reporting period	(436 803)	90 563

There were no transfers from Level 1 to Level 2 fair value measurements during the year ended 31 December 2020 (2019: 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 input
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	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	Unit price	–	–
Equity investments (unlisted)	3	Net fair value of underlying assets, DCF	Cash flow plus risk-adjusted rate	Discount rate, budgets and forecasts	Discount rate: 14,5% and 17,4%
Unit funds (unlisted)	2	DCF model earnings multiple, units held multiplied by unit prices	Cash flow plus risk-adjusted rate unit prices	–	–
Other loans	3	DCF	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	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, 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

The following table shows the impact on the fair value of Level 3 instruments using reasonably possible alternative assumptions by class of instrument:

	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
2020					
Financial assets					
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
2019					
Financial assets					
Investment in physical properties	121 615	9 486	(9 486)	(9 729)	9 729
Investment in unlisted property companies	729 294	56 885	(56 885)	(58 344)	58 344

	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 discount rate P'000	Effect of a 2% decrease in discount rate P'000
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
2019					
Bonds	4 022 349	(313 743)	313 743	(62 749)	62 749
Total	4 022 349	(313 743)	313 743	(62 749)	62 749

	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
2020			
Equity investments	178 857	2 790	(2 790)
2019			
Equity investments	267 485	4 173	(4 173)

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 geographic 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 macro-economic 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 Property Asset Management 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 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 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
Policy loans and other loan advances	–	–	–	–	–
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	**–**	**–**	**2 521 641**	**562 672**	**3 084 313**

26. Categories of financial assets and financial liabilities continued

	GROUP				
	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 measured at amortised cost P'000	Total P'000
2019					
Financial assets					
Investment in unlisted property companies	729 293	–	–	–	729 293
Bonds (Government, public authority, listed and unlisted corporates)	8 608 179	–	–	–	8 608 179
Money market instruments	2 834 067	–	–	–	2 834 067
Equity investments	1 784 202	–	–	–	1 784 202
Other receivables	–	127 293	–	–	247 033
Cash, deposits and similar securities	–	162 095	–	–	162 095
Loans at amortised cost	–	50 000	–	–	50 000
Total financial assets	13 955 741	339 388	–	–	14 414 869
Financial liabilities					
External investors in consolidated funds	–	–	2 667 763	–	2 667 763
Derivatives instrument	–	–	5 810	–	5 810
Lease liabilities	–	–	–	21 431	21 431
Related party balances	–	–	–	15 769	15 769
Other payables	–	–	–	102 217	102 217
Total financial liabilities	–	–	2 673 573	139 417	2 812 990

26. Categories of financial assets and financial liabilities continued

GROUP

	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 measured at amortised cost P'000	Total P'000
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
2019					
Financial assets					
Other receivables	–	23 001	–	–	23 001
Related party balances	–	777	–	–	777
Cash, deposits and similar securities	–	73 999	–	–	73 999
Total financial assets	–	97 777	–	–	97 777
Financial liabilities					
Trade and other payables	–	–	–	22 956	22 956
Related party payables	–	–	–	15 445	15 445
Total financial liabilities	–	–	–	38 401	38 401

27. Bifm CCE 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 exercise. Of the 15,1% of the ordinary shares issued by Bifm that are 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 a year 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. The group, like other businesses, was also impacted by the pandemic, both negatively and positively, in 2020 in the areas below.

28. COVID-19 impact and related considerations continued

Premium income

Premium income for regular premium retail products grew by 6% this period compared to 10% in the prior year. The reduced growth was driven by the reduction in new business premium income and lost premium income due to lapses and surrenders. New business premium income reduced by 14% mainly driven by reduced new business volumes from the investment portfolio. The national and regional lockdowns by the Government to mitigate the spread of COVID-19 were almost three months in duration; a period in which our sales intermediaries where not able to sell new business. Retail regular premium risk products, however, showed more resilience than investment products as new business premium income increased overall. The business made a decision to give policyholders a premium holiday of three months to preserve the retail file size; this resulted in an increase in premium income arrears. The arrears increased by 24% compared to the prior year while premium income written off due to lapses and surrenders increased by 16%.

Annuity premium income increased by 8% despite the lockdowns. The backlog of sales caused by the lockdowns in Q2 came through in the second half of the year. An increase in BLIL's competitiveness in the market has also likely played a part on the premium income growth.

The group risk portfolio saw 23% growth in premium income mainly driven by 26% growth in Group Credit Life (GCL) premium income. The lockdown had a negative impact on GCL in the first half of the year as loan business slowed down for banks while some microlenders were not operating during the lockdown. New business volumes increased post lockdowns spurred by the cut in the bank rate by Bank of Botswana and the increase in civil servants' salaries. Group Funeral Schemes (GFS) premium income increased by 21% despite some schemes asking for premium holidays. The growth was driven by increased penetration on existing schemes. The significant exposure to the civil service also provided stability of income. Growth of premium income on the Group Life Assurance portfolio was also notable at 11%. This is despite some schemes preferring to pay regular premiums instead of a single premium in an effort to manage their liquidity. Acquisition of new schemes and growth of premium income on existing schemes from repricing helped grow premiums.

Investment income and investments

Investment return income reduced by about 60% compared to the prior period driven by increasing risk-free bond yields in the local bond market. We saw a huge increase in the bond yield in the last quarter of the year 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

The BOPEU loan was impaired by P3,2 million to allow for the increased risk of BOPEU not being able to repay its loan as its revenue has been negatively impacted by the underperforming economy as a result of COVID-19. The impairment review entailed reviewing the adequacy of the security on the loan. Refer to note 8 and note 24.7 for the loan movement and ECL inputs, respectively.

Other receivables

As a result of the movement restrictions and lockdowns, our financial advisors were not able to write new business. This negatively impacted their ability to earn commission. Management, with support of the board, provided the financial advisors with financial assistance initiatives to cushion the sales force from the impact thereof. The financial assistance was in the form of loans and grants amounting to P6 million and a moratorium on payment of existing loans, clawbacks and new loans was put in place until January 2021. These resulted in an increase in outstanding balances due from intermediaries. Management reviewed the collectability of the financial advisors balances and an impairment of P9 million was provided for in 2020.

There was also a P9 million premium income receivable impairment on the Group Life Assurance (GLA) and Group Credit Life (GCL) book. While this impairment cannot be fully attributed to the impact of COVID-19, delays in paying premiums may be due to businesses managing their liquidity as their revenue reduces due to COVID-19 impacts.

28. COVID-19 impact and related considerations continued

Insurance benefits and claims

The net claims and benefits are 102% of prior year. In the current year, the decrease in the trend was mainly attributable to the COVID-19 travel restrictions with lower claims compared to prior years except for term assurance and disability (GLA). Overall claims net of reinsurance grew by only 2% during the period. Regular premium retail products net claims increased driven by term assurance death and disability claims growth. The increase in death claims cannot be associated with COVID-19 as payment of death claims related to COVID-19 was insignificant. The growth in claims may reflect the aggressive growth of our term assurance book. The increase in disability claims may potentially be the impact of COVID-19 as we expect disability claims to increase during tough economic times. Management is paying close attention to disability claims underwriting through the help of the reinsurer.

Group risk claims increased overall driven by increased disability claims on the GLA book. The increased disability claims may reflect an increase in fraudulent activity as some schemes try to finance retrenchment packages through disability claims or at times overzealous schemes try to avoid claims repudiation for delayed reporting and hence report even remote claims. Most of these claims are a provision at this stage as we continue to underwrite them with the help of the reinsurer. GFS had a minimal increase in claims despite the significant premium income growth on this book. The favourable GFS claims experience is likely due to reduced accidental deaths as a result of the national lockdown, the curfew restriction and an increased number of people working from home, low flu-related deaths in winter due to use of masks and improved hygiene habits. For investment products, the maturity and surrender claims paid over the period were lower compared to the prior year, reflecting the reduced policy values due to lower investment income earned by the underlying assets.

Administration costs

The group realised savings from reduced travel and accommodation expenses as well as discretionary expenses. These savings were, however, negated by costs incurred to implement COVID-19 health and safety measures in our offices and branches as well as providing employees the necessary equipment to enable working remotely. The group also contributed funds to the Government COVID-19 relief fund (P4,5 million). High interest charges were incurred due to the maintenance of the overdraft facility.

Policyholder liabilities under insurance contracts

We have not made any adjustment for COVID-19 on our mortality assumptions used for calculation of actuarial liabilities because the expected impact currently appears not significant and we have sufficient prudence in our portfolio.

Country	Population	Reported case	Number of deaths	Infection rate	Case fatality rate	Population extra mortality rate
Botswana	2 358 445	25 812	226	1,09	0,88	0,01
South Africa	59 620 000	1 496 439	48 478	2,51	3,24	0,08
Namibia	2 569 813	36 440	394	1,42	1,08	0,02

Source – Government of Botswana COVID-19 Task Force, Statistics Botswana and Stats SA population projections, John Hopkins University, www.worldometers.info
Date of data extraction – 18/02/2021.

The table above shows general population statistics for COVID-19 comparing Botswana with two of its neighbours. Botswana has a lower infection rate, case fatality rate and overall COVID-19 mortality rate. The additional mortality arising from COVID-19 is not significant and will even be smaller for our life insurance portfolio. BLIL has received COVID-19-related claims but these have not affected our claims experience significantly.

Botswana is currently (at the time of writing this report) experiencing a surge in COVID-19 positive cases and the mutated COVID-19 strain, known as 501.V2, that is believed to be more infectious, has been confirmed to have crossed into Botswana by the Government of Botswana. The surge in claims may be as a result of the December holiday period when people travelled across the country potentially spreading the virus, as well as the effects of the highly contagious 501.V2 variant.

28. COVID-19 impact and related considerations continued

Policyholder liabilities under insurance contracts continued

The Government of Botswana through the Ministry of Health has indicated that they have secured USD10 million worth of assorted COVID-19 vaccines through the COVAX and AVATT programmes and is expecting to start vaccinating the population starting in March 2021. While vaccines offer hope, there remains great uncertainty on the trajectory of the disease owing to continuous mutation of the virus, the effectiveness of vaccines to new mutations, the effectiveness of the COVID-19 immunisation programme by the Government, coverage of the immunisation programme and affordability of COVID-19 vaccines by the Government. Management is monitoring national statistics and our claims experience related to COVID-19 closely and will review the mortality assumption if the need arises.

We are expecting our lapse experience to deteriorate as the economy continues to struggle. Our lapse experience data for the year-end lapse investigation showed improvement in lapses most likely due to the premium holiday offered to policyholders and the investigation lag period. We therefore did not adjust our base lapse assumptions down in line with experience and maintained our assumptions as at June 2020 for prudence. Further, we have established a provision of P6,5 million for the expected increase in lapses due to COVID-19. The provision was calculated based on the effect of the 2008 financial crisis on our lapse experience and allows for the expectation for COVID-19 impact on lapses to be greater.

Liquidity

Reduced collections due to the need to give our clients premium holidays were experienced in 2020. Liquidity was also impacted. To address liquidity issues, the group has a standing overdraft facility with one of the local banks. Management continues to monitor collections closely.

29. Events after the reporting period

29.1 Dividends declared

There have been no 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. The directors have resolved to award a final dividend of 65 thebe (2019: 59 thebe) per share (net of tax) and a special dividend of nil thebe (2019: 11 thebe) per share (net of tax).

29.2 COVID-19 pandemic

The COVID-19 pandemic has continued to impact the Botswana economy beyond 31 December 2020. Infection rates and mortality rates have spiked globally since the beginning of January 2021. New COVID-19 strains have been reported in various countries, with the initial variants being reported in the UK, South Africa and Brazil. The vaccination programmes initiated in December 2020 continue to focus on frontline workers and 'at risk' population groups. Vaccination efforts across the globe have been hampered by supply constraints as well a budget constraints.

The 2021 budget presented recently by the Minister of Finance, proposed some tax hikes notably a VAT increase from 12% to 14%, sugar tax, and an increase in withholding tax on dividends from 7,5% to 10%. Other changes include an increase in the fuel levy, operationalisation of the plastic levy as well as the introduction of the second-hand vehicle levy. The Minister also "reported that a comprehensive rationalisation strategy covering all state-owned enterprises (SOEs) has been developed. Implementation of the strategy will address issues such as duplication of activities and overlapping mandates. Some SOEs have also been identified for privatisation, while others could be closed. This will reduce Government spending on these entities. The review will also make proposals for improvements in SOE corporate governance.

The above highlight increased pressure on household incomes in 2021 as tax hikes are likely to trigger price hikes across a wide spectrum of goods and services. The delayed access to vaccines means that the spread and impact of COVID-19 is likely to continue through to 2022. The increased pressure on household incomes as well as the continued spread of COVID-19 will increase the risk of policy lapses and will also result in higher COVID-19-related claims.

07

SHAREHOLDER INFORMATION

SHAREHOLDER ANALYSIS

Share analysis – ordinary shareholders'

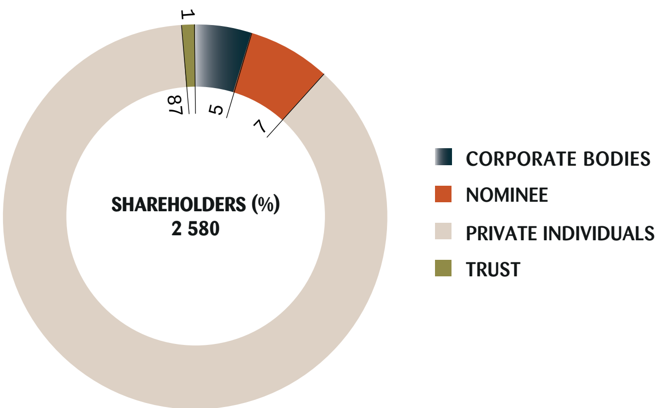
	SHAREHOLDERS Number of holders	% of holders	SHARES HELD Shares held	% of issued shares
1 to 5 000	2 062	79,92	1 919 336	0,70
5 001 to 10 000	165	6,40	1 079 931	0,40
10 001 to 50 000	220	8,53	4 575 891	1,60
50 001 to 100 000	41	1,59	2 986 262	1,10
100 001 to 500 000	62	2,40	13 357 329	4,70
500 001 to 1 000 000	13	0,50	8 204 271	2,90
Over 1 000 000	17	0,66	250 247 632	88,60
Total	**2 580**	**100,00**	**282 370 652**	**100,00**

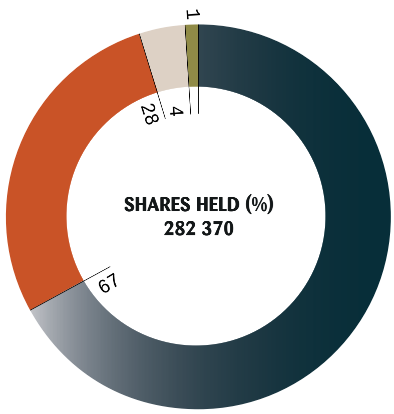
Top 10 shareholders

		Shares held	% of issued shares
SCBN Proprietary Limited Sanlam Emerging Markets:bw0000016225	Sanlam Emerging Markets Proprietary Limited	116 388 211	41,22
African Life Assurance Company (Botswana) Proprietary Limited	African Life Assurance Company (Botswana) Proprietary Limited	48 603 380	17,21
Botswana Public Officers Pension Fund	FNB Botswana Nominees Proprietary Limited Re: AG BPOPF Equity	24 470 460	8,67
Botswana Public Officers Pension Fund	FNB Botswana Nominees Proprietary Limited Re: Allan Gray BPOPF Equity Portfolio B	11 135 443	3,94
Motor Vehicle Accident Fund	Motor Vehicle Accident Fund	10 835 140	3,84
Botswana Public Officers Pension Fund	FNB Botswana Nominees Proprietary Limited Re: Bifm BPOPF Equity	9 616 155	3,41
Botswana Public Officers Pension Fund	FNB Botswana Nominees Proprietary Limited Re: Bifm BPOPF Equity	6 808 862	2,41
FNB Noms BW Proprietary Limited Re: BPOPF Equity Portfolio C	FNB Noms Bw Proprietary Limited Re: BPOPF Equity Portfolio C – Allan Gray	4 501 071	1,59
Stanbic Nominees Botswana Re Bifm PLEF	SBBL O/A Bifm Professional Local Equity Fund	3 457 292	1,22
Stanbic Nominees Botswana Re Bifm MLF	SBBL O/A Bifm Market Linked Fund	2 924 111	1,04
Others	Others	43 630 527	15,45
		282 370 652	**100,00**

Category

	SHAREHOLDERS		SHARES HELD	
	Number of holders	% of holders	Shares held	% of issued shares
Corporate bodies	126	4,89	189 689 286	67,18
Nominee	176	6,82	80 219 766	28,41
Private individuals	2 262	87,67	11 283 651	4,00
Trust	16	0,62	1 177 625	0,41
	2 580	**100,00**	**282 370 328**	**100,00**





SHAREHOLDERS' DIARY

Financial year-end	31 December
Annual results announcement	11 March 2021
Interim results announcement	2 September 2021
Integrated annual report posted	28 May 2021
Annual general meeting	25 June 2021

DIVIDEND DISTRIBUTION

Year-end dates	
Declaration of final dividend	3 March 2021
Ex-dividend date	9 April 2021
Payment date	23 April 2021
Interim dates	
Declaration of interim dividend	18 August 2021
Ex-dividend date	4 October 2021
Payment date	18 October 2021

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 December 2020

BIHL GROUP

BOTSWANA INSURANCE HOLDINGS LIMITED

Registration number BW00000798601

Notice is hereby given that the twenty-ninth annual general meeting (AGM) of Botswana Insurance Holdings Limited (BIHL or the company) will be held at the Avani Gaborone Hotel Conference Centre on 25 June 2021 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 2020 that have been distributed to shareholders as required, including the audited consolidated annual 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 19 August 2020 and 3 March 2021.

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 Andrew W Cartwright
b) Mr Kobus Vlok
c) Lieutenant General Tebogo C Masire.

Ordinary resolution number 3.1: Re-election of Mr Andrew W Cartwright as a director

To re-elect Mr Andrew W Cartwright who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election.

Mr Andrew W Cartwright (63)
Independent Non-executive Director since 28 May 2019

Qualifications: Bachelor of Business Science (Hons) from the University of Cape Town. Senior Management Programme, University of Stellenbosch. CFP from the Financial Planning Institute – previously Fellow of the Institute of Life and Pension Advisers (South Africa). Fellow of the Institute and Faculty of Actuaries (UK) and Fellow of the Actuarial Society of South Africa. Fellow of the Institute of Actuaries (India).

BIHL committee member: BIHL audit and risk committee

BIHL group directorship: Botswana Life Insurance Limited

Field of expertise: Insurance and actuary

The board recommends the re-election of this director.

Ordinary resolution number 3.2: Re-election of Mr Kobus Vlok as a director

To re-elect Mr Kobus Vlok who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election.

Mr Kobus Vlok (61)
Independent Non-executive Director since 14 June 2019

Qualifications: BCom Business Economics from the University of Pretoria. Master of Business Leadership from the University of South Africa. Post Graduate Diploma in Financial Planning at the University of Free State. Advanced Post Graduate Diploma in Financial Planning at the University of Free State.

BIHL committee membership: None

BIHL group directorship: Botswana Life Insurance Limited

Major external positions, directorships or associations: Chief Executive: Distribution Support at Sanlam Emerging Markets

Field 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 Lieutenant General Tebogo C Masire as a director

To re-elect Lieutenant General Tebogo C Masire who retires by rotation in terms of Article 19 of the Constitution of the company, being eligible and offering himself for re-election.

Lieutenant General Tebogo C Masire (65)
Non-Executive Director since 21 August 2015

Qualifications: Diploma and BSc from the Troy State University. Masters in Business Administration (MBA) from the University of Southern Queensland, Australia.

BIHL committee membership: None

BIHL group directorship: None

Major external positions, directorships or associations: Chairman of the Botswana Stock Exchange

Field of expertise: General business

The board recommends the re-election of this director.

5. Ordinary resolution number 4

To note the total amount of Non-executive Directors' and Executive Directors' remuneration for the financial year ended 31 December 2020.

To note the total amount of directors' remuneration set out in the BIHL integrated annual report, Non-executive Directors' page 88 and Executive Directors' page 191 for the financial year ended 31 December 2020.

2020 directors' fees for approval (Pula)

Name	Annual retainer	Board meeting committee	Audit and risk committee	Human resources committee	Subsidiary boards	Nominations committee	Investment committee	Credit committee	Other committee/ meetings	Total
B Dambe-Groth *(Chairman)*	–	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
N Suliaman*	–	38 588	–	–	95 000	–	143 076	107 276	–	383 940
K Vlok*	65 000	77 176	–	–	80 000	–	–	–	–	222 176
Total	**390 000**	**976 644**	**540 452**	**56 700**	**565 000**	**68 250**	**250 352**	**250 352**	**125 875**	**3 223 625**

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

6. Ordinary resolution number 5

To approve the remuneration of the auditor for the year ended 31 December 2020.

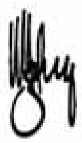
7. Ordinary resolution number 6: Re-appointment of the auditor

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 and vote in his/her stead. The proxy need not be a member of the company.
2. The instrument appointing such a 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 is/are entitled to attend and vote at this AGM and is/are entitled to appoint one or more proxies (who need not to be shareholders of the company) to attend, speak and vote on behalf of the shareholder/s at the AGM.

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 the Avani Gaborone Hotel Conference Centre on 25 June 2021 at 16:00.

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 on 25 June 2021 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 2020			
2. Ordinary resolution number 2: To approve the dividends declared by the directors on 19 August 2020 and 3 March 2021			
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 Andrew W Cartwright			
3.2. Mr Kobus Vlok			
3.3. Lieutenant General Tebogo C Masire			
4. Ordinary resolution number 4: To note the total amount of Non-executive Directors' and Executive Directors' remuneration for the financial year ended 31 December 2020			
5. Ordinary resolution number 5: To approve the remuneration of the auditor for the year ended 31 December 2020			
6. Ordinary resolution number 6: To appoint the auditor for the coming year to 31 December 2021			

Signed at ______________________ on the ______________ day of ______________ 2021

Signature ____

NOTES TO THE FORM OF PROXY

Receiving and adoption of the annual financial statements together with the reports of the statutory actuary and the auditors

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 2020, together with the reports of the valuator and the auditor contained in 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 a director.

Shareholders' calendar reporting

Financial year-end	31 December
Announcement of financial year-end	
31 December 2020 results	10 March 2021
Integrated annual report sent on or about	28 May 2021
Annual general meeting	25 June 2021
Interim results published	2 September 2021

Dividends

2020 final dividend payment	23 April 2021

Notes to form of proxy

1. A shareholder may insert the name of a proxy or names of two alternative proxies with or without deleting 'the Chairman of the General Meeting'; 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, Plot 66458, Block A, 3rd Floor, Fairgrounds Office Park, Gaborone, Botswana or PO Box 336, Gaborone, Botswana, or faxed to +267 397 3705 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 or she 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.

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	BIHL Insurance Company Limited
Bifm	Botswana Insurance Fund Management Limited
BIHL	Botswana Insurance Holding Limited
BIHL Trust	Botswana Insurance Holding Trust
BLIL	Botswana Life Insurance Limited
FSG	Funeral Services Group
Khumo	Khumo Property Asset Management Company
Legal Guard	Legal Guard
Letshego	Letshego Holdings Limited
LHL	Letshego Holdings Limited
Khumo	Khumo Property Asset Management Company
Legal Guard	Legal Guard
Letshego Guard Insurance Co Ltd	Letshego Guard Insurance Company Limited
Photon Private Equity Fund	Photon Private Equity Fund Managers Proprietary Limited

Acronyms and abbreviations

AGM	Annual general meeting
AI	Artificial intelligence
AML/CFT and P	Anti-money Laundering/Combating Financial Tourism and Proliferation
AUM	Assets under management
AVATT	African Vaccine Acquisition Task Team
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
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CFO	Chief Financial Officer
CIU	Collective investment undertaking
CSI	Corporate social investment
COVAX	COVAX is a global alliance bringing together governments, global health organisations, manufacturers, scientists, the private sector, civil society and philanthropy, with the aim of providing innovative and equitable access to COVID-19 vaccines
COVID-19, the pandemic	Coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
CRM	Customer relationship management
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
GCL	Group Credit Life
GDP	Gross domestic product
GFS	Group Funeral Schemes
GLA	Group Life Assurance
HR	Human resources
IBNR	Claims incurred but not yet reported
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISAs	International Standards on Auditing
IT	Information technology
King IV	King IV Report on Corporate Governance for South Africa, 2016
KYS	Kgolo Ya Sechaba

LGD	Loss given default
MFED	Ministry of Finance and Economic Development
PCT	Prescribed capital target
PPB	Private Property Botswana
PPE	Personal protective equipment
SOE	State-owned enterprise
SADC	Southern African Development Community
SEM	Sanlam Emerging Markets
SME	Small or medium-sized enterprise
The board	The board of directors of BIHL Limited
The year	The year ended December 2020
TI	Trans Industries Proprietary Limited
US	United States
WHO	World Health Organisation

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	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

DIRECTORS' CVs

1 Batsho Dambe-Groth (55)

Board Chairman – BIHL Group

Nationality: Motswana

Appointed: March 2008; March 2010 as Chairman

BSc (Hons) Occupational Psychology (University of Wales Institute of Science and Technology), Fellow (USA Fulbright Humphrey Programme), Certified Global Remuneration Professional (World at Work compensation organisation, USA)

Batsho is the Managing Director of Resource Logic which consults to a wide range of organisations on human resources and business solutions.

Batsho began her career with De Beers Botswana and has progressed in the human resources field working in the mining, parastatal, insurance and financial services sectors. She joined the BIHL Group in 1994 and, by the time of her resignation in 2003, had worked her way up to the position of Assistant General Manager, Support Services.

Batsho is a director of Botswana Oil and chairs the human resources and nominations committees. She is also a director of Botswana Craft Marketing, Etsha Weavers Group, Boitekanelo, Loapi, Gems of Kalahari and is a council member of Maru-a-Pula School.

2 Catherine Lesetedi (54)

Group CEO

Nationality: Motswana

Appointed: March 2016

BA in Statistics and Demography (University of Botswana), Masters in Development Practice (Graduate School of Business at the University of Cape Town), professional qualifications in Advanced Insurance Practice, Diploma in Insurance Studies (University of South Africa), Sanlam Executive Leadership Programme (Gordon Institute of Business Science)

Catherine was appointed as CEO in March 2016 and 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 Insurance Limited 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 Botswana Insurance Holdings Limited, Funeral Services Group Limited, Bifm Capital Investments Fund 1, Botswana Insurance Company Limited, Nico Life, Nico Pensions Services Limited, Nico Holdings PLC and Letshego Holdings Limited.

She is also part of the BIHL management team.

3 Kudakwashe Mukushi (45)

Group CFO

Nationality: Zimbabwean

Appointed: April 2017

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

Kudakwashe joined BIHL Group in 2013 as the CFO of Botswana Life Insurance Limited and was promoted to the position of Group CFO in April 2017. He has over 18 years of experience across various industry sectors including banking, reinsurance, pension funds, life insurance and the retail and energy sectors.

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

Legend					
Executive		Audit and risk committee	■	Human resources committee	⬟
Independent non-executive		Investment committee	●	Independent review committee	✶
Non-executive		Nominations committee	▲		

4 Chandra Chauhan (58)

Board Chairman – BLIL

Nationality: Motswana

Appointed: April 2019

■ ▲ ✶

Nomination committee Chairman

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

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.

5 John Hinchliffe (64)

Board Chairman – Bifm

Nationality: British

Appointed: June 2010

■ ✶

Independent review committee Chairman

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

John heads John Hinchliffe Consultants, an accounting and consulting practice in Gaborone. He is also Chairman of Legal Guard and a member of the Legal Guard audit and risk committee.

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 also a director of various other companies, including Development Securities Proprietary Limited; Nsenya Proprietary Limited; Portion 84 Mokolodi Sanctuary Proprietary Limited; Botswana Insurance Company Limited where he is also Chairman of the audit committee; Mokolodi Utilities Proprietary Limited; Camphill Community Trust and Chairman of the RDC Properties Limited audit committee.

6 Lieutenant General Tebogo Carter Masire (65)

Board member

Nationality: Motswana

Appointed: August 2015

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

Tebogo is the former Commander of the Botswana Defence Force. He is one of the founding members of the Southern Africa 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 Botswana Sports Foundation Trust.

DIRECTORS' CVs continued

Legend					
Executive		Audit and risk committee		Human resources committee	
Independent non-executive		Investment committee		Independent review committee	
Non-executive		Nominations committee			

7

Mahube Chilisana Mpugwa (53)

Board member – Bifm

Nationality: Motswana

Appointed: June 2010

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

Mahube was the Executive Director and General Manager of Puma Energy Botswana (formerly BP Botswana) from 2008. Prior to that, he held several positions within BP Botswana and BP South Africa where he was responsible for strategic communications and Government relations. He has 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.

8

Andrew Willis Cartwright (62)

Board member – Botswana Life

Nationality: South African

Appointed: May 2019

Audit and risk committee Chairman

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

Andrew is a former General Manager of Protection Solutions at Old Mutual, a position he held before retiring from the corporate world in 2015. Prior to that, he was Chief Operating Officer for Old Mutual – Group Schemes where he held a wide range of responsibilities including risk management, insurance pricing and client services.

During his long career in the finance sector, he served at various industry and professional bodies in South Africa and India. Currently, Andrew volunteers at LEAP science and maths schools, as well as assisting with an insurance start-up.

9

Nigel Suliaman (54)

Bifm board member and Bifm Unit Trust board member

Nationality: South African

Appointed: June 2020

Investment committee Chairman

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

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

10

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)

Kobus is Sanlam's emerging markets Chief 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 SEM 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 a CEO and for Sanlam Personal Finance as a 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.

MANAGEMENT TEAM CV's

1 Catherine Lesetedi (54)

Group CEO

See page 236 for full CV.

2 Kudakwashe Mukushi (45)

Group CFO

See page 236 for full CV.

3 Ronald Samuels (52)

CEO – BLIL

Nationality: South African

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

Ronald was appointed Chief Executive Officer of Botswana Life Insurance Limited 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 Chief Executive Officer 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 Insurance Limited and that of the Botswana Insurance Holdings Limited Trust.

4 Neo Bogatsu (47)

CEO – Bifm

Nationality: Motswana

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

Neo joined Botswana Insurance Fund Management (Bifm) in 2011 as Chief Finance Officer, and was later promoted to the position of Chief Executive Officer.

Prior to joining Bifm, she had been 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.

5

Thomas Masifhi (55)

Group 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)

Thomas was appointed as the BIHL Group's Head of Business Development and Stakeholder Management in February 2017. He joined the BIHL Group in June 1992 as an insurance broker with Botswana Life Insurance Limited before leaving to become the Broker Manager at Southring Insurance Brokers 1994, and later registering 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 which was established to focus on customer retention.

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

CONTACT INFORMATION

Botswana Insurance Holdings Limited
Incorporated in 1990 in Botswana
Company registration number: BW00000798601

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Plot 66458, Block A
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Transfer secretaries
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PO Box 294
Gaborone, Botswana

Auditor
Ernst & Young
2nd Floor, 22 Khama Crescent
PO Box 41015
Gaborone, Botswana

Company Secretary
Haig Ndzinge

Statutory actuary
Edwin Splinter

Group bankers
Barclays Bank of Botswana Limited
(Now Absa Bank Botswana Limited)
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

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BIHL GROUP

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Bifm Botswana Life BIC BOTSWANA INSURANCE COMPANY