Botswana Insurance Holdings Limited

2010 Annual Report

THE 2010 THEME

Innovation, Strength, Efficiency.

BIHL boasts a competent new team of senior management following the restructuring exercise. They bring fresh thinking into the business.

INNOVATION IS A KEY INGREDIENT TO relevance in the market. At the BIHL Group, we consider this sentiment as integral in our operations. By setting up new business lines like the Unit Trust, the Group has positioned itself optimally to take on the market. We believe this to be a sterling illustration of the Group's inherent strength garnered over our 35 year heritage. The interim results that we posted in prevailing markets also reflect this strength.

Our Theme Description

Innovation

> A new strategic direction
> Fresh thinking resources in the new senior team
> An introduction of new product offerings

Strength

> Our resilient performance despite market challenges
> The growing portfolio of assets under management
> The strategic partnerships we've established with sound businesses in Botswana and across Africa
> Our business heritage

Performance

> Optimal asset, market leadership and profitable performance by the Group
> Delivery with integrity
> Our Group Positioning

The BIHL Group has positioned itself as an innovative leader, which is outperforming the market. Despite the uncertainties of the business environment and playing field, as global economies rose towards recovery, we have continued to emerge as stronger than before. Our goal is that in exploring this year's Annual Report, our customers, business partners, prospective customers and other crucial stakeholders conclude the following:

> That they have a reliable and ideal partner with a resilient, steady and growing business.
> That they stand to enjoy the pleasure and harmony of having a sustainable investment with the Group

The reader's journey through this Annual Report will reflect BIHL's legacy over three decades, our leadership in the market and provision of sustainable returns for investors. The BIHL Group has grown in harmony with the people and country of Botswana's development. Within this Annual Report, are demonstrations of the contributions and viability of every single operation to the elements of innovation, strength and efficiency that the BIHL Group' national service embodies.

Botswana Insurance Holdings Limited

BIHL

Botswana Life Insurance Limited

BLIL

Bifm

Bifm

BIHL Group Corporate Governance

GOVERNANCE

BIHL Group Reports

REPORTS

BIHL Group Annual Financial Statements

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Our **history**

1975 –

1975

1975 April: Legislation passed to establish a central bank with the framework to govern financial institutions that will fall under its supervision.

1975 August: Botswana Insurance Company formed as a 51% subsidiary of the Botswana Development Corporation

1977: Botswana Insurance Company sells its first life policy.

1981

1981: Botswana Insurance Company starts development of the country's first major residential estate, Tapologo, on behalf of its life and pension funds.

1987: The Insurance Industry Act of Botswana is promulgated, regulating all aspects of insurance in Botswana and requiring separate legal entities for the underwriting of long and short-term insurance businesses.

1991

1991: Exchange control liberalised, permitting diversification of investments offshore. Botswana Insurance Company is restructured to separate its general insurance business and life insurance business. Botswana Insurance Holdings Limited (BIHL), which consists of Botswana Life Insurance Limited and Botswana General Insurance Limited, is the result. August BIHL lists on the Botswana Stock Exchange Shares are floated at P0.22 and the issue is 273% over subscribed.

1993

25% of the BIHL equity is held by the general public comprising some 1,500 individual and corporate shareholders.

1993 December: BIHL shares rise to P0.32 - a 46.5% increase on the listing price.

1993 November: BIHL acquires control of IGI Botswana Holdings Limited, which is delisted and restructured into BIHL which continues to handle short-term and long-term insurance.

1995: African Life acquires a major shareholding in BIHL from Southern Life and Botswana Development Corporation.

1999

1999: In conjunction with the Botswana Accountancy College, Botswana Life launches insurance courses at the college with the company's initial funding of the project matched by government. Botswana Life also funds 15 of the first 25 students to register for the certificate course.

2010:

Ground breaking of yet another PPP Project, Rail Park Mall in Gaborone, this time with Botswana Railways. In addition, construction of the Airport Junction Mall, also in Gaborone, commenced.

> Appointment of BLIL CEO Catherine Lesetedi-Letegele and Bifm CEO Tiny Kgatlwane.

> BIHL acquired Legal Guard from Letshego Holdings in order to expand into the short term insurance arena.

2010

2000

2000: With the development of the group's local information and actuarial systems. BIHL becomes the first company in Botswana to report on the embedded value performance. This brings the group in line with leading world accounting reporting. Botswana Life invests in Funeral Services Group to extend service to policy holders and their families at the time when they most need assistance. Bifm expands into Zambia.

2001

2001: Botswana Life introduces extended family funeral benefits and the option of automatic premium and benefit increases to counter inflation. Botswana Life launches Khumo 2016, which offers a savings benefit and the ability to select additional risk benefits as required. The product matures in 2016 to support the government's plans to commemorate the country's 50th anniversary.

2003

2003: Bifm unveils its new corporate identity and a definitive positioning statement, "Dynamic Wealth Management".

2005: The top management of BIHL and its subsidiaries is fully localised with Batswana. BIHL's majority shareholder, African Life Assurance Company Limited, is acquired by Sanlam Limited. Established in 1918, Sanlam is a leading financial services group in South Africa, listed on the JSE Limited in Johannesburg and on the Namibian Stock Exchange. In compliance with global corporate governance best practice, Bifm sold its remaining 25% shareholding in Glenrand Botswana to Glenrand M.I.B.

2006

2006: BLIL launched three new products - Mmoloki, Motlhokomedi and a Mortgage Protector Plan.

2007: BIHL Board approves establishment of community development trust to address its Corporate Social Investment obligations.

2008: Bifm's first PPP project – the building housing the Office of the Ombudsman and the Lands Tribunal at the Main Mall, popularly known as Plot 21 – was handed over to the Ministry of Public Works on time and within budget

2009

2009: A stone's throw away from the New CBD in Phase 2 is a major landmark, which marks the pride of the Southern Africa – the new SADC Headquarters. The seven-storey building will be used as the Headquarters for the member states in the region. Bifm marked yet again another of its kept promises by delivering this property on time during the review period.

In this year BLIL also launched the Bancassurance distribution channel.

ABOUT BOTSWANA

Botswana, **Africa's treasure**

BOTSWANA IS A LARGE (600,370km2), sparsely populated territory with 70 percent of its land surface made up of the Kalahari Desert. It lies between Zimbabwe and Namibia to the east and west, Angola and Zambia to the north and South Africa to the south. The country gained independence from Britain on 30 September 1966.

Today, Botswana is a stable, multi-party democracy and has held free and fair democratic elections regularly since independence. Its capital is Gaborone, a modern city that also serves as the country's financial hub.

At independence, however, Botswana was one of the poorest countries in the world. It was the discovery of diamonds that gave the country the impetus required to be able to transform itself into a middle-income country with a standard of living for its citizens similar to that of Turkey.

Diamonds continue to play a major role in the country's economy although attention is increasingly being given to the development of other industries as well.

For many decades, Botswana had the highest economic growth rate of any nation in Africa, if not the world.

Botswana Insurance Holdings Limited (BIHL) has also contributed meaningfully to the growth of the Botswana economy and the development of a sophisticated, vibrant financial sector in the country.

"Today, Botswana is a stable, multi-party democracy and has held free and fair democratic elections regularly since independence."

BIHL PROFILE AND STRUCTURE

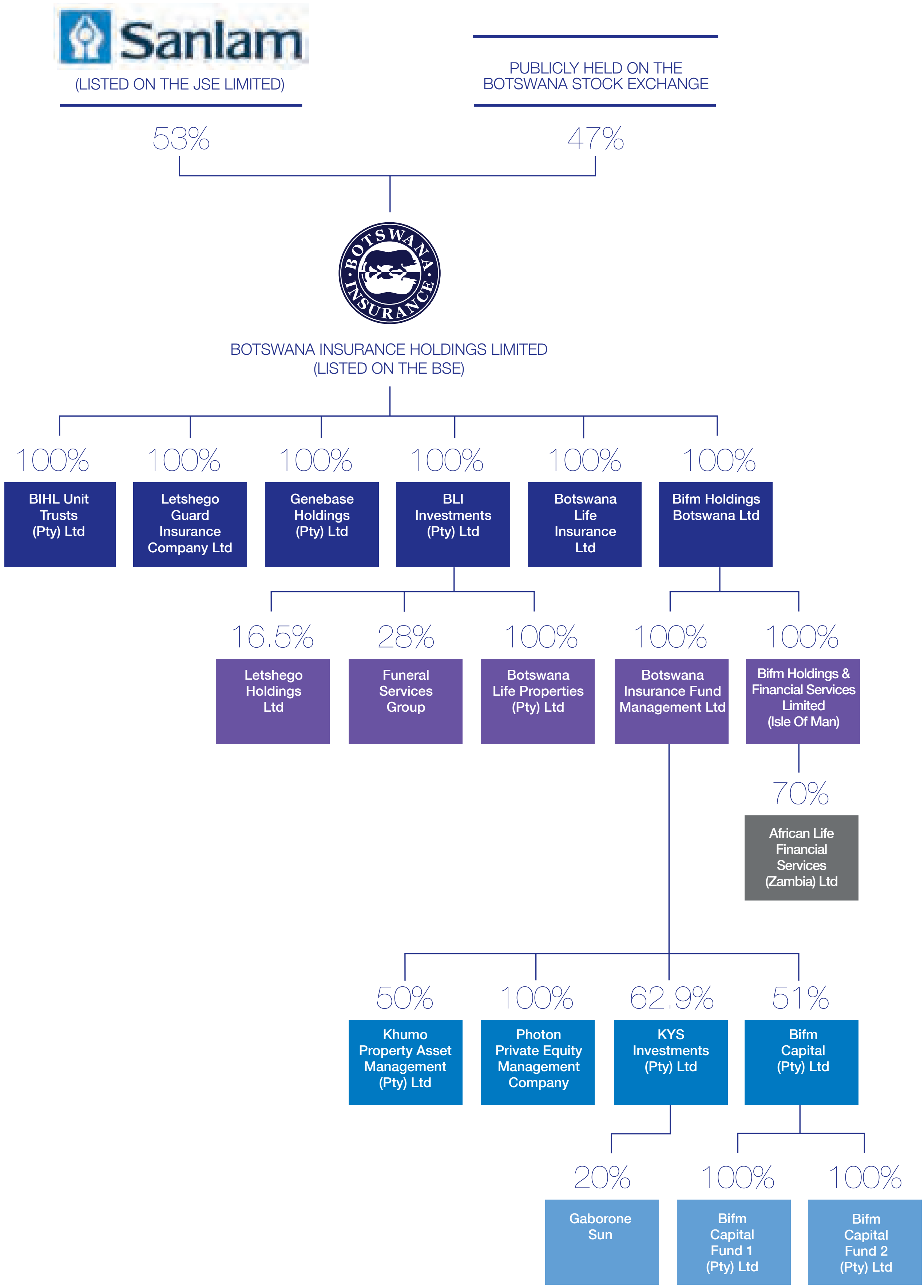
Expanding into new areas, **diversifying our product offering**

Botswana Insurance Holdings Limited (BIHL) is a broad-based financial services group and one of the top companies listed on the Botswana Stock Exchange.

ITS TWO LARGE AND LONG-ESTABLISHED SUBSIDIARIES, BOTSWANA Life Insurance Limited (Botswana Life) and Botswana Insurance Fund Management (Bifm) hold dominant positions in their respective sectors. Botswana Life is the largest and oldest Life Assurance company in Botswana while Bifm is the country's biggest asset manager. Following the launch of a diversification strategy, BIHL is in the process of expanding its activities into new areas including short-term insurance, unit trusts, and loans, and to this end, has recently acquired Letshego Guard Insurance Company Ltd from Letshego Holdings (Pty) Ltd. Through its shareholding in Bifm, it is one of the most active property development and management companies in the country.

Sanlam Limited, a multi-faceted financial services group that is highly respected across Africa, is the majority shareholder in the BIHL Group with a 53% shareholding. The remaining 47% is held by Botswana citizens. The BIHL Group plays a key role in Botswana economy. The Group has total assets of P12.2 billion.

In addition to its commercial business interests, the BIHL Group administers the BIHL Trust which is a social investment organ devoted to promoting the self-sufficiency and sustainable upliftment of disadvantaged communities in Botswana.


Sanlam
(LISTED ON THE JSE LIMITED)
PUBLICLY HELD ON THE BOTSWANA STOCK EXCHANGE
53%
47%
BOTSWANA INSURANCE
BOTSWANA INSURANCE HOLDINGS LIMITED (LISTED ON THE BSE)
100%
BIHL Unit Trusts (Pty) Ltd
100%
Letshego Guard Insurance Company Ltd
100%
Genebase Holdings (Pty) Ltd
100%
BLI Investments (Pty) Ltd
100%
Botswana Life Insurance Ltd
100%
Bifm Holdings Botswana Ltd
16.5%
Letshego Holdings Ltd
28%
Funeral Services Group
100%
Botswana Life Properties (Pty) Ltd
100%
Botswana Insurance Fund Management Ltd
100%
Bifm Holdings & Financial Services Limited (Isle Of Man)
70%
African Life Financial Services (Zambia) Ltd
50%
Khumo Property Asset Management (Pty) Ltd
100%
Photon Private Equity Management Company
62.9%
KYS Investments (Pty) Ltd
51%
Bifm Capital (Pty) Ltd
20%
Gaborone Sun
100%
Bifm Capital Fund 1 (Pty) Ltd
100%
Bifm Capital Fund 2 (Pty) Ltd

Revenue

> Net premium income increased by 29% to P1.6 billion

> Fee income increased by 14% to P137 million

> Value of new business increased by 16% to P132.3 million

Earnings

> Operating profit increased by 12% to P281.1 million.

> Core earnings increased by 10% to P339.2 million

> Profit attributable to equity holders increased by 42% to P322.5 million.

Assets under Management

> Assets under management increased by 6% to P17.6 billion

Embedded Value

> Embedded value increased by 8% to P2.40 billion

Dividends

> P216.4 million paid in dividends during the year (2009: P261.4 million)

> Final normal dividend proposed of 41 thebe per share (gross of tax)

Solvency

> Business well capitalised, required capital covered 7.1 times (December 2009: 6.2 times)

BOTSWANA INSURANCE HOLDINGS LIMITED

Financial Highlights

"BIHL's financial results can be described as a very solid performance. Botswana Life and Bifm businesses both contributed positively to these results. The newly acquired Legal Guard business has also contributed positively. We ended the year with operating profit up 12% to P281million and our basic headline earnings up an impressive 41% to P322.5million. Our embedded value increased by 8% to P2.4billion. Thanks to this very good performance, we were able to declare a final dividend of 41thebe per share."

Batsho Dambe-Groth, BIHL Chairperson

Assets under management 6%

P17.5 billion

Embedded value 8%

P2.4 billion

Operating profit 12%

P281 million

Value of new business 16%

P132 million

FINANCIAL HIGHLIGHTS

Ten Year Review

	Year to 31-Dec-10 P'000	Year to 31-Dec-09 P'000	Year to 31-Dec-08 P'000
Group consolidated income statement			
Net premium income	1,620,513	1,253,413	958,636
- Recurring	754,097	682,577	565,313
- Single	866,417	570,836	393,323
Pension and investment contribution			
Fee income	137,249	120,623	121,308
Fair value gains on investment properties	-	-	8,768
Investment income	73,257	57,397	93,223
Net gains/(losses) from financial assets held at fair value through profit and loss	17,985	(72,412)	(90,831)
Total income	1,849,004	1,359,021	1,091,104
Net policyholder movement	(984,430)	(680,811)	33,289)
Policyholders 's income/(loss)	198,164	1,497,835	(1,545,432)
Investment income	396,933	422,587	369,991
Net (losses)/gains on financial assets held at fair value throgh profit and loss	(198,770)	1,075,247	(1,915,424)
Net insurance and investment contract benefits and claims	(1,182,594)	(2,178,646)	1,012,143
Policyholder benefits paid	(712,524)	(524,343)	(418,695)
Change in liabilities under investment contracts	(132,674)	(850,960)	1,534,843
Change in liabilities under insurance contracts	(337,396)	(803,343)	(104,008)
Expenses	(534,852)	(447,815)	(332,115)
Sales remuneration	(297,649)	(245,028)	(165,735)
Administration expenses	(237,203)	(202,787)	(166,380)
Goodwill impaired and amortised	-	-	-
Profit before share of profit of associate and joint ventures	329,722	230,395	225,700
Share of profit of associates and joint ventures	72,217	26,821	9,802
Profit before tax	401,939	257,216	235,501
Income tax expense	(69,456)	(19,544)	(14,037)
Profit for the year	332,483	237,672	221,463
Earnings per share (thebe)			
- basic	122.00	87.00	77.03
Gross dividends per share (thebe)	66.0	69.0	93.0
Weighted average number of shares in issue ('000)	263,979	261,967	262,567

Year to 31-Dec-07 P'000	Year to 31-Dec-06 P'000	9 months to 31-Dec-05 P'000	Year to 31-Mar-05 P'000	Year to 31-Mar-04 P'000	Year to 31-Mar-03 P'000	Year to 31-Mar-02 P'000
791,281	678,983	450,647	527,492	488,892	354,299	249,558
447,885	371,750	255,517	297,406	289,468	261,063	217,828
343,396	307,233	195,130	230,086	199,424	93,236	31,730
110,316	81,466	46,802	40,420	53,368	50,751	33,658
80,682	23,221	(6,921)	3,863	-	-	-
215,321	158,198	31,038	27,233	27,602	36,149	9,870
226,424	161,872	124,110	30,832	830,867	(482,416)	280,654
1,424,024	1,103,740	645,677	629,841	1,400,729	(41,217)	573,740
(566,599)	(522,356)	(325,935)	(290,360)	(1,155,952)	278,909	(40,947)
1,341,241	1,993,679	1,471,668	595,312	185,410	(89,302)	265,714
388,912	332,025	239,447	298,925	43,606	(34,265)	52,040
952,328	1,661,653	1,232,221	296,387	141,803	(55,038)	213,673
(1,907,840)	(2,516,035)	(1,797,603)	(885,672)	(1,341,362)	368,211	(306,661)
(343,149)	(257,557)	(149,194)	(158,008)	(151,555)	(81,947)	(66,538)
(1,038,206)	(1,700,829)	(1,299,982)	(438,329)	(830,867)	482,416	-
(526,488)	(557,652)	(348,430)	(289,338)	(358,943)	(32,261)	(240,126)
(257,737)	(190,604)	(132,399)	(145,201)	(129,108)	(116,699)	(101,423)
(118,067)	(73,241)	(51,124)	(67,837)	(54,015)	(45,374)	(39,504)
(139,670)	(117,363)	(81,275)	(77,364)	(71,388)	(67,620)	(59,437)
-	-	-	-	(3,705)	(3,705)	(2,482)
599,688	390,780	187,343	194,280	115,669	120,993	431,370
4,001	2,304	4,465	(3,853)	1,965	2,427	9,709
603,689	393,084	191,808	190,427	117,634	123,420	441,07
(49,867)	(77,021)	(34,453)	(33,664)	(13,494)	(21,576)	(54,266)
553,821	316,062	157,354	156,762	104,139	101,843	386,812
205.81	119.2	64.9	62.1	38.3	37.0	52.6
56.0	42.0	27.5	23.5	20.0	15.0	10.0
259,519	259,833	259,291	252,616	269,369	267,257	275,684

FINANCIAL HIGHLIGHTS

Ten Year Review (continued)

	31-Dec-10 P'000	31-Dec-09 P'000 Restated	31-Dec-08 P'000 Restated
Group consolidated statement of financial position			
Property and equipment	15,854	18,487	16,890
Intangible assets	140,782	82,622	79,821
Investments	10,428,159	9,648,070	7,880,357
Trade and other recievables	206,991	218,458	165,689
Cash deposits and similar securities	1,376,228	1,414,988	1,384,478
Total assets	12,168,015	11,382,626	9,527,235
Ordinary shareholders' equity	1,374,259	1,261,805	1,331,035
Non-controlling interest	31,588	35,042	31,095
Policyholder liabilities	10,311,402	9,762,230	7,819,021
- insurance contracts	3,957,129	3,633,013	2,817,683
- investment contracts	6,354,273	6,129,217	5,001,338
Deferred tax liability	19,050	21,090	49,760
Trade and other payables	431,716	302,459	296,324
Total equity and liabilities	12,168,015	11,382,626	9,527,235
Group statement of cash flows			
Cash generated from/ (utilised in) operating activities	937,656	2,124,523	(1,109,328)
Interest received	45,502	35,115	74,364
Tax paid	(59,179)	(40,263)	(46,656)
Dividends paid	(205,307)	(241,153)	(157,220)
Cash flow from operating activities	(718,672)	1,878,222	(1,238,840)
Cashflow utilised in investing activities	(757,432)	(1,847,713)	1,951,148
Net cash flows generated /(utilised) from financing activities	-	-	-
Net (decrease)/increase in cash and cash equivalents	(38,760)	30,509	712,308
Cash and cash equivalents at the beginning of the year	1,414,988	1,384,479	672,170
Cash and cash equivalents at the end of the year	1,376,228	1,414,988	1,384,478

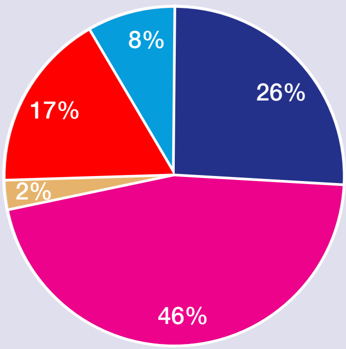
31-Dec-07 P'000	31-Dec-06 P'000	31-Dec-05 P'000	31-Mar-05 P'000	31-Mar-04 P'000	31-Mar-03 P'000	31-Mar-02 P'000
13,962	20,666	43,873	47,527	16,497	18,091	17,296
16,337	14,649	15,610	16,632	16,121	18,649	22,020
10,015,626	8,876,477	6,767,586	5,390,907	6,007,611	4,423,241	2,970,647
65,764	62,004	91,281	78,862	207,938	183,633	151,775
672,170	255,198	7,287	7,234	6,265	5,668	7,106
10,783,859	9,228,994	6,925,637	5,541,162	6,254,432	4,649,282	3,168,844
1,317,057	849,136	644,588	506,506	549,852	483,167	450,864
55,006	21,172	17,723	13,051	17,207	7,396	7,441
9,129,979	8,140,007	6,114,114	4,882,945	5,567,539	3,989,152	2,497,034
2,683,973	2,157,459	1,599,913	1,287,454	1,020,160	661,002	628,741
6,446,006	5,982,548	4,514,201	3,595,491	4,547,379	3,328,150	1,868,293
70,246	50,664	17,494	13,785	7,434	305	1,152
211,571	168,015	131,718	124,875	112,400	169,262	212,353
10,783,859	9,228,994	6,925,637	5,541,162	6,254,432	4,649,282	3,168,844
1,184,913	106,098	134,266	15,157	611,092	2,270,601	1,279,560
45,495	32,502	85,280	164,903	57,550	60,932	19,419
(44,276)	(50,044)	(32,153)	(21,838)	(74,871)	(54,750)	(32,056)
(152,840)	(88,610)	(48,438)	(68,922)	(60,650)	(45,761)	(12,766)
1,033,292	(54)	138,955	89,300	533,121	2,231,022	1,254,157
(616,320)	(954,666)	(138,470)	(89,455)	(534,013)	(2,232,460)	(1,254,937)
-	-	(432)	1,124	1,489	-	2,585
416,972	(954,720)	485	(155)	(892)	(1,438)	(780)
255,198	1,209,918	7,234	6,265	5,668	7,106	5,301
672,170	255,198	7,287	7,234	6,265	5,668	7,106

FINANCIAL HIGHLIGHTS

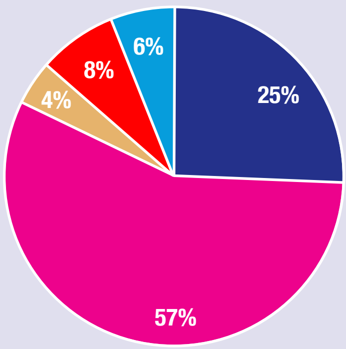
Value Added Statement

	Year to 31 Dec 2010 P'000	Year to 31 Dec 2009 P'000
Value Added		
Income from operations	1,649,315	1,229,374
Operating expenditure	(534,852)	(447,815)
Policyholder benefits paid	(712,524)	(524,344)
	401,939	257,215
Value Distributed		
To employees		
Salaries, wages and other benefits	103,656	65,376
To ordinary shareholders		
Dividends- Normal	185,507	146,157
To minority shareholders	9,933	10,370
To Government		
Taxation	69,456	19,544
To expansion and growth		
Reinvested in the business for future growth	29,945	37,073
Amortisation	1,113	1,152
Depreciation	5,097	4,143
Deferred taxation	(2,768)	(26,600)
	33,387	15,768
	401,939	257,215
Summary		
Employees	26%	25%
Shareholders	46%	57%
Minority shareholders	2%	4%
Government	17%	8%
Retained for expansion and growth	8%	6%
	100%	100%

Value Added Distribution 31 Dec 2010



Value Added Distribution 31 Dec 2009



Employees
Shareholders
Minority Shareholders
Government
Retained for Expansion and Growth

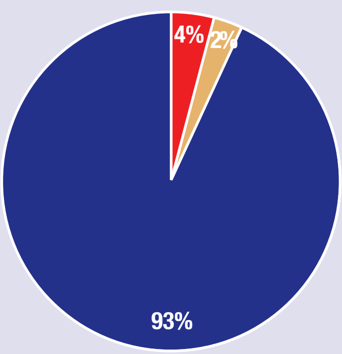
Share Analysis - Ordinary Shares

	Shareholders		Shares held	
	Number of holders	% of holders	Shares held	% of issued shares
1- 5,000	2,428	75	2,428,100	1
5,001-10,000	296	9	2,121,872	1
10,001- 50,000	360	11	7,484,789	3
50,001-100,000	53	2	3,653,530	1
100,001- 500,000	66	2	15,211,856	5
500,001 - 1,000,000	12	0	8,325,697	3
OVER 1,000,000	19	1	241,844,808	86
Total	3,234	100	281,070,652	100

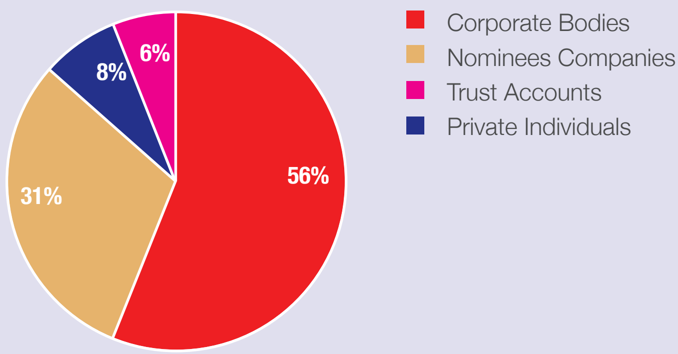
Top ten shareholders		
SCBN (PTY) LTD RE: FAM 201/010	2,949,988	1
BIHL STAFF SHARE SCHEME	3,646,810	1
FNB NOMINEES (PTY)LTD RE:SIMS BPOPF 10001009	4,237,478	2
MOTOR VEHICLE ACCIDENT FUND	10,735,164	4
STANBIC NOMINEES RE: BIFM	11,266,653	4
SCBN (PTY) LTD RE: FAM 3582376	12,410,166	4
SCBN (PTY) LTD RE: IAM 030/14	12,571,370	4
STANBIC NOMINEES RE: BIFM BPOPF	15,479,620	6
SANLAM	48,603,380	17
SANLAM	100,915,844	36
OTHER	58,254,179	21
	281,070,652	100

	Shareholders		Shares held	
Category	**Number**	**%**	**Number**	**%**
Corporate bodies	126	4	157,334,067	56
Nominees companies	79	2	86,485,561	31
Trust accounts	6	0	15,974,148	6
Private individuals	2,953	93	21,276,876	8
	3,164	100	281,070,652	100

Breakdown of Shareholders 2010



Breakdown of Shares Held 2010



Innovation

Founded in 1975, the BIHL Group has grown to become a broad-based financial services company in the country. Despite its longevity, the company is not mired in the past and is making major investments in pioneering programs. The foundation has been laid by implementation of significant IT system projects. These initiatives are designed to provide better service to customers, while continuing to expand its business around the region. Notwithstanding our success over the years, we recognise that we cannot continue to do more of the same. We need to make sure we are always ahead of the competition.

BIHL Board of Directors

Batsho Pamela Dambe-Groth+++
BSc (Hons), (University of Wales Institute of Science and Technology)

Group Board Chairperson
Independent Non Executive director
Other Directorships: Botswana Craft Marketing, Resource Logic, Etsha Weavers Group, Boitekanelo, Gems of Kalahari

Appointed to board: 25 March 2008

Regina Dumilano Sikalesele-Vaka ++
LLB (UB)

Group CEO Botswana Insurance Holdings Limited
Executive director

Appointed to the board: 1 July 2003
Resigned: 31 March 2011

Margaret Mercer Dawes +
BSc (Hons) (University of London), ACA (Eng & Wales); CA (SA); HDip Tax Law (Wits)

Non-executive director.
Head: Rest of Africa (Sanlam Developing Markets)

Appointed to the board: 2 February 2005

Mahube Chilisana Mpugwa+++
BA (Hons)(Windsor, Canada); MBA (Glasgow , Scotland)

Independent Non-executive director

Appointed to the board: 01 June 2010

Chandra Chauhan +++
B.Acc(Hons), ACA (England & Wales) A.C.P. A (Botswana)

Independent Non-executive director
Other directorships: Managing Director of Sefalana Holding Company Limited

Appointed to the board: 20 April 2009

Uttum Corea+++
FCA (S.L.), FCPA (Bots.), PIAM (Harvard).

Independent Non Executive director
Other directorships: Colmore Investments, Aeroc Holdings, Abacus House Botswana, Plot Four Eight Four Four (Pty) Ltd

Appointed to the board: 18 February 2008

+ Non-executive ++ Executive +++ Independent non executive



Heinie Carl Werth +
B Accountancy (Hons), CA (SA), MBA (Stellenbosch) EDP (Manchester)

Non-executive director
CEO: Sanlam Developing Markets

Appointed to the board: 15 May 2006

Francois Johannes Kellerman+
B. Acc (Hons); CA(SA) CFA

Non-executive director
Chief Financial Officer: Sanlam Investment Management

Appointed to the board: 15 August 2007

Mogamat Armien Tyer+
B.Com, B. Com (Hons) (UCT); MBA (University of Stellenbosch);AMP (Havard University)

Non-executive director
Managing Director: Sanlam Investment Management.

Appointed to the board: 14 July 2010

John Hinchliffe +++
BA(Econ), ACA (ICAEW), FCPA (Bots)

Independent Non-executive director
Other directorships: Development Securities (Pty) Limited, DCDM Consulting (Pty) Limited, Nsenya (Pty) Limited, Portion 84 Mokolodi Sanctuary (Pty) Limited, Mokolodi Utilities (Pty) Limited,Kalahari Conservation Society, Camphill Community Trust

Appointed to the board: 01 June 2010

Audit Committee
Margaret M. Dawes (Chairperson)
Francois J. Kellerman
Uttum Corea
John Hinchliffe
Chandra Chauhan (Alternate to U Corea)

Investment Committee
Keith R. Jefferis (Chairman)
Mogamat A. Tyer
Mahube M. Mpugwa

Human Resources Committee
Chandra Chauhan (Chairman)
Mogamat A.Tyer
Margaret M. Dawes
Batsho P. Dambe – Groth

Nominations Committee
Uttum Corea (Chairman)
Batsho P. Dambe – Groth
Heinie C.Werth

Independent Review Committee
Chandra Chauhan (Chairman)
Batsho P. Dambe-Groth
Uttum Corea

CHAIRPERSON'S LETTER

Our strategy gives us **strength and resilience**

"I am very pleased to report that despite facing the most difficult economic conditions for many decades, BIHL performed well in 2010. Our strategy served us well during the downturn.

The Board, executive management team and employees at all levels of the company fared well against the challenges posed by extremely turbulent conditions."

Picture: *Batsho Pamela Dambe-Groth, BIHL Group Chairman*

THE YEAR 2010 MARKED THE START OF significant change and innovation – change that permeated throughout the Group from the Board, through the structure and strategy, to management. My appointment as Group Chairman was formalised and I found myself at the helm of a Board that was also undergoing change. We appointed a new Group CEO as well as new CEOs of our two major operating subsidiaries – Botswana Life and Bifm; and we started formal and focused implementation of our diversification strategy that we had alluded to in the past. Despite all these, BIHL sustained its resilience and strength and moved confidently in the right direction throughout the review period.

Economic environment

When we look back on 2010, we started the year still reeling from the most difficult economic year that the world and Botswana has faced in decades. We were able to draw some comfort from the fact that our worst fears of a prolonged global depression seemed increasingly unlikely. Indeed, by early 2011, a global economic recovery appeared to be on the cards. However, caution was, and is, still needed, given the events in the Middle East and North Africa and the resultant impact on oil prices.

While the spectre of the global financial crisis appears to be receding around the world, the sovereign debt issues in European countries such as Ireland, Portugal and Greece continue to cast long shadows over hopes of a speedy economic recovery. It will be some time before a global "all clear" can be sounded.

Performance for the year

BIHL's financial results can be described as a very solid performance. Botswana Life and Bifm businesses both contributed positively to these results.

The newly acquired Legal Guard business has also contributed positively. We ended the year with operating profit up 12% to P281 million and our basic headline earnings up an impressive 41% to P322.5 million. Our embedded value increased by 8% to P2.4 billion. Thanks to this very good performance, we were able to declare a final dividend of 41thebe per share.

The Group also focussed on laying solid foundations for future growth, two significant IT system projects commenced during the year, an investment in world class systems for the life insurance and asset management businesses. These investments are aimed at significantly improving client service and supporting the growth of the business.

Chairperson's Letter (continued)

In line with our strategy of becoming a broader financial services provider in Botswana and within the region, several new business initiatives were undertaken; property development initiatives; the secured loan business that was fully implemented, and; the structures for the unit trust business and the short term insurance businesses were put in place.

Board composition

Although we are not obligated by the King III Report on Corporate Governance, as a Group, BIHL is making a concerted effort to follow this benchmark.

One area that features strongly in the King III recommendations relates to the composition of the Board. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) - has recommended that BIHL change its Board's composition to ensure a greater component of truly independent, non-executive directors.

I am pleased to report that we have made significant progress in this regard. Our goal is to have one executive director; six independent directors; and four non-executive directors representing the majority shareholder. With the resignation of Victor Senye and Thomas Schultz from the Board in the review period, and the appointments of John Hinchliffe and Mahube Mpugwa as independent, non-executive directors, we have almost achieved our goal.

We are in the process of identifying a sixth suitable candidate to serve as an independent non-executive director. This will complete the restructuring of the Board.

Appreciation

Many thanks to our valued customers who have supported us to become the great company we are. Without them, the BIHL success story would not be there. My thanks also go to our investors as well as minority and majority shareholders for their confidence in BIHL during the turbulent review period. This confidence is reflected in our strengthening share price.

I would like to take this opportunity to thank the entire management team and staff of BIHL and its subsidiaries for their resilience and continued focus during this period of significant change. I thank them for ensuring that operationally and financially the company remained stable and even achieved growth. On behalf of the Board, I would like to thank Mr Senye for his valuable contribution as Bifm's CEO over many years and look forward to his further contribution in his new role of growing Bifm's property interests as one of our diversification strategies.

Finally, my sincere and personal thanks go to the each and every member of the Board who have given unstintingly of their time and expertise to steer the Group through this transition period. I am particularly grateful to Mr Uttum Corea for the willing manner in which he has shouldered the burden of the role of lead independent director, deputising for me whenever circumstances required.

"Although we are not obligated by the King III Report on Corporate Governance, as a Group, BIHL is making a concerted effort to follow this benchmark. One area that features strongly in the King III recommendations relates to the composition of the Board. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) has recommended that BIHL change its Board's composition to ensure a greater component of truly independent, non-executive directors. "

Batsho Dambe-Groth
Chairman

BIHL Management

Regina Dumilano Sikalesele - Vaka
LLB (UB)
CEO, BIHL Group
(Resigned 31 March 2011)

Catherine Lesetedi - Letegele
BA – Statistics & Demography (UB), AIISA, MDP – UCT
CEO, Botswana Life Insurance Limited

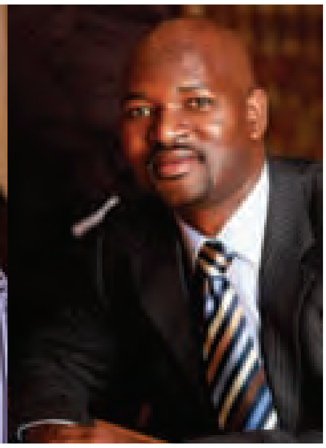
Tiny Kgatlwane
BCom (UB), CMA
CEO, Bifm

Gaffar Hassam
FCCA;ACPA (Botswana);COP
Group Chief Finance and Operating Officer

Elias Magosi
BA- Economics & Statistics (UB); PGD Management Services:FMS
Group Head, Human Resources

Alicia Mokone
Msc: Business Systems Analysis and Design
Group Head, Information Technology

Philip Van Rooijen
BSc Actuarial Science; Fellow of the Institute of Actuaries
Group Actuary



Favor K. Marebole
*BSc (Mining Engineering), University of New South Wales (Australia); MCom (Advanced Information Systems & Management), University of New South Wales (Australia)*Group Director, Strategy and Business Development

Sipho H. Showa
MBA (UB)
Group Director, Corporate Services

Lauren Fine
BCom Cum Laude; PGD Management
Head, Loans and Unit Trusts

BIHL Group Structure

Botswana Insurance Holdings Limited

- BIHL GROUP CEO
  - CEO Botswana Life Insurance Limited (BLIL)
  - CEO Botswana Insurance Fund Management (Bifm)
    - Includes Property Fund and Private Equity Fund
  - CEO - Short Term Insurance (New entity & vacant)
  - Policy Secured Loans & Unit Trusts
  - Group Director - Strategy & Business Development
    - Business Development including facilitating cross-selling & sharing of databases
  - Group Finance & Operations Officer
    - Actuarial
    - Group Finance
    - Information Technology
    - Human Resources
  - Group Director - Corporate Services
    - Company Secretarial
    - Marketing Communications
    - Risk & Compliance
    - Legal Services

GROUP CEO'S REPORT

A multi-faceted, broad-based, **innovative financial services** company

"2010 was a watershed for BIHL. It was a year of immense change that has redefined the Group and set us on the path to becoming a multi-faceted, broad-based financial services company offering a comprehensive range of innovative financial services and solutions."

Picture: *Regina Dumilano Sikalesele - Vaka, BIHL Group CEO*

ONE OF THE REASONS FOR THIS STRATEGY was our recognition that our reliance on Botswana Life (BLIL) and Botswana Insurance Fund Management (Bifm) to continue delivering growth and value to shareholders would become increasingly unsustainable over time. Both hold dominant positions in their respective markets (an estimated 80% and 75% respectively) and both performed remarkably well in the review period, particularly against the background of difficult economic circumstances.

At Botswana Life, net premum income rose to P1.6 billion, an increase of 29% on the previous year while new business volumes rose 16% to P132.3 million. Bifm increased its assets under management to a record P17.6 billion.

Despite these excellent results, we recognised that we could not just continue to do more of the same.

Approval by the Board of a new structure for BIHL with management at Group level enabled us to proceed with a diversification strategy that will drive the Group's sustainability and growth into the future.

The BIHL Group that ended 2010 looked very different at an operational perspective from the company that started it. From just two main strong operations – life assurance and asset management – we anticipate that within five years, the BIHL Group will encompass a range of companies, activities and investments, all of which will be contributing to the bottom line.

We spent much of 2010 recruiting the right individuals to take up management positions in the new structure, while simultaneously familiarising ourselves with and refining the BIHL Group strategy. All this obviously resulted in some instability - the kind that's to be expected when dealing with change of this magnitude. With management in place, we will be focusing on getting the right people into positions at the lower levels in the Group in the current year. We do not anticipate significant changes in the staff complement as our objective is to make what we already have in place work better. Many functions have been or will be pulled out of the subsidiaries and moved to Group level.

We have, for example, established a shared services platform that will enable us to benefit from economies of scale across the Group. Support functions such as IT, HR, actuarial services, corporate services (marketing, communications and corporate governance) and – in the future - distribution, are now handled at the Group level. The benefit of this change is already being felt across the operating subsidiaries.

Group Chief Executive Officer's Report (continued)

"In line with our strategy of becoming a broader financial services provider in Botswana and within the region, several new business initiatives were undertaken; property development initiatives; the secured loan business that was fully implemented, and the structures for the unit trust business and the short term insurance businesses were put in place. "

By the end of the review period, the situation had largely settled. We were able to meet our targets on the existing businesses and we had identified which businesses will be launched going forward. What we now have is a resilient structure that supports and complements our two powerhouse subsidiaries, Botswana Life and Bifm. It will enable us to use the collective strengths and advantages of each of the BIHL subsidiaries for the benefit of the wider Group.

The structure of "new" BIHL currently makes provision for the following lines of business:

Life Assurance: Botswana Life remains the country's largest life assurance company, providing a range of products and services to meet the needs of the country at large, from the largest corporate and government structure to low-income individuals in the remotest rural area.

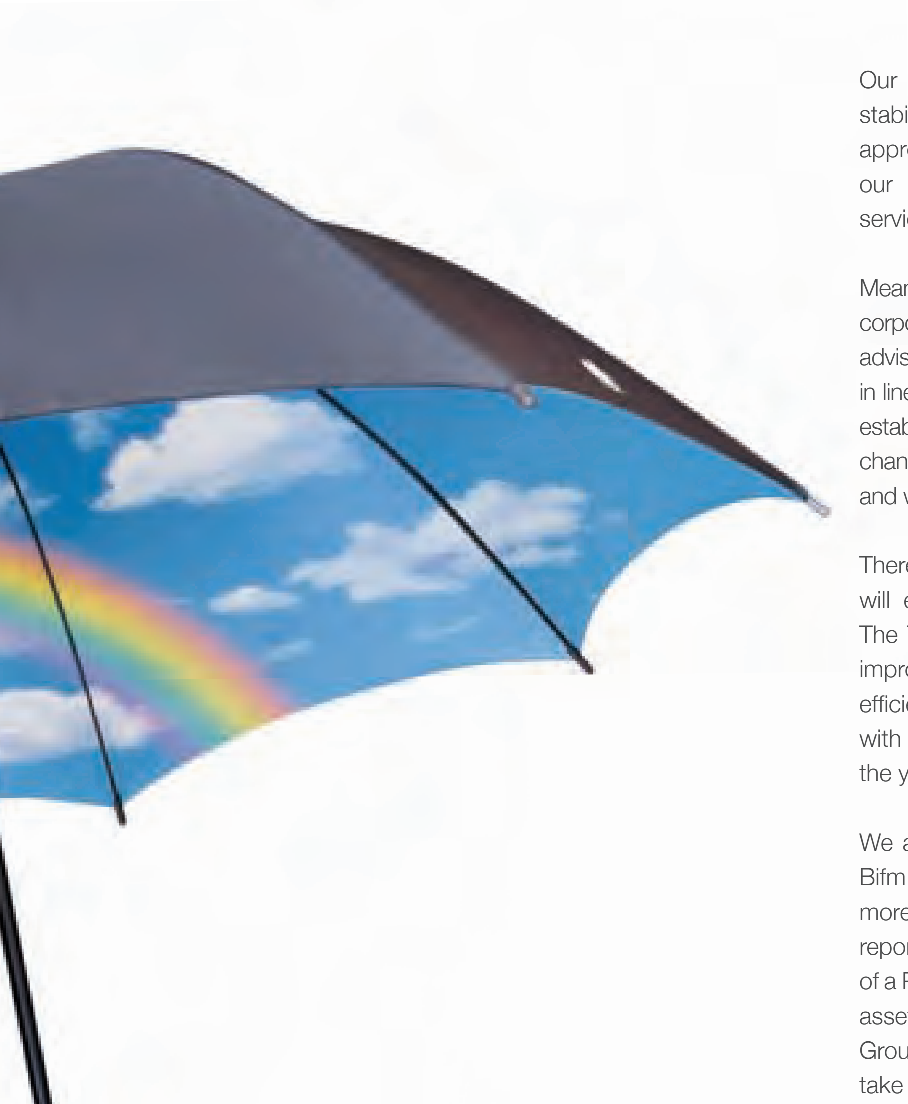
Asset Management: Bifm is Botswana's largest asset manager, managing the country's long-term wealth on behalf of the pension industry and other institutional investors.

Short-term insurance: As a first step in establishing a comprehensive short-term insurance offering, we acquired 100% of Letshego Guard Insurance company along with its short-term insurance licence. Letshego markets the popular Legal Guard product which provides customers with professional legal services on a contingency basis.

The acquisition of Legal Guard was bedded down with the operations that had been based at nine Letshego branches being seamlessly integrated in Botswana Life branches around the country. Group IT played a key role in this, managing to complete the entire cut-over and integration of Legal Guard's IT systems in just five months.

Under its new management team, Legal Guard is already benefitting from its access to the expertise, processes and procedures within BIHL and, despite a major jump in its overheads because of the relocation, Legal Guard turned in a satisfactory financial performance.

Nevertheless, our progress towards establishing an overarching short term insurance company was hampered by the resignation of the newly appointed CEO who left for personal reasons. We are continuing with the recruitment process for this company and will continue to look at potential further acquisitions.



Policy Loans: Gene Base Holdings was established to administer secured loans on behalf of Botswana Life and exceeded its profit targets for the review period. We have extended consumer access to our policy loans to all our branches.

IT issues relating to this operation have been bedded down and we completed and have begun implementing a comprehensive strategy to improve our time to market. Gene Base's activities complement the unsecured loans offered by Letshego Holdings in which BIHL, through Botswana Investments, has an increased, albeit minority stake.

Unit Trusts: We are moving forward with our intention to launch a unit trust portfolio and anticipate that this will be achieved within the first half of the current financial year.

Looking ahead

Another exciting development during the review period was an undertaking by our major shareholder, Sanlam, that it would support our expansion into the Africa. We anticipate being able to make announcements in this regard later in the current financial year.

Our major focus in the short to medium term will be to stabilize our new subsidiaries. We also remain alert to appropriate merger and acquisition opportunities to further our drive towards becoming a broad-based financial services institution.

Meanwhile we are working hard at improving all aspects of our corporate governance. Consultants have been brought in to advise and assist us on our IT Governance in order to bring us in line with the requirements of King III. A committee has been established to oversee the implementation of the necessary changes and enhancements to our IT systems and procedures and we will be rolling this out in the current financial year.

There are also a number of major IT projects underway that will enhance operations within Botswana Life and Bifm. The Thito Life Administration system which is designed to improve client service; data management by enabling more efficient data mining, and; ultimately boost our ability to deal with lapses, is expected to go early in the third quarter of the year.

We are also progressing well with a major upgrade of the Bifm back office system which will enable improved and more timely accurate reporting as well as enhanced client reports. Progress is also being made on the establishment of a Property Fund that is aligned to Bifm's overall alternative asset strategy. All the various properties owned by the BIHL Group will be consolidated into the Property Fund, which will take over their management and development.

Thanks

My sincere thanks go to the management teams and staff within our subsidiaries for keeping everything within their operations moving forward while change was going on all around them. I also thank the new BIHL management team for taking up the challenges of getting the new structure off the ground so efficiently and enthusiastically.

The change process would have been far more difficult without the backing of a Board that fully appreciated what we were setting out to achieve. Their advice and support has been invaluable.

Finally, to our customers, suppliers and partners – thank you for your ongoing support of BIHL.

Regina Sikalesele-Vaka
BIHL Group Chief Executive Officer

Financial Review

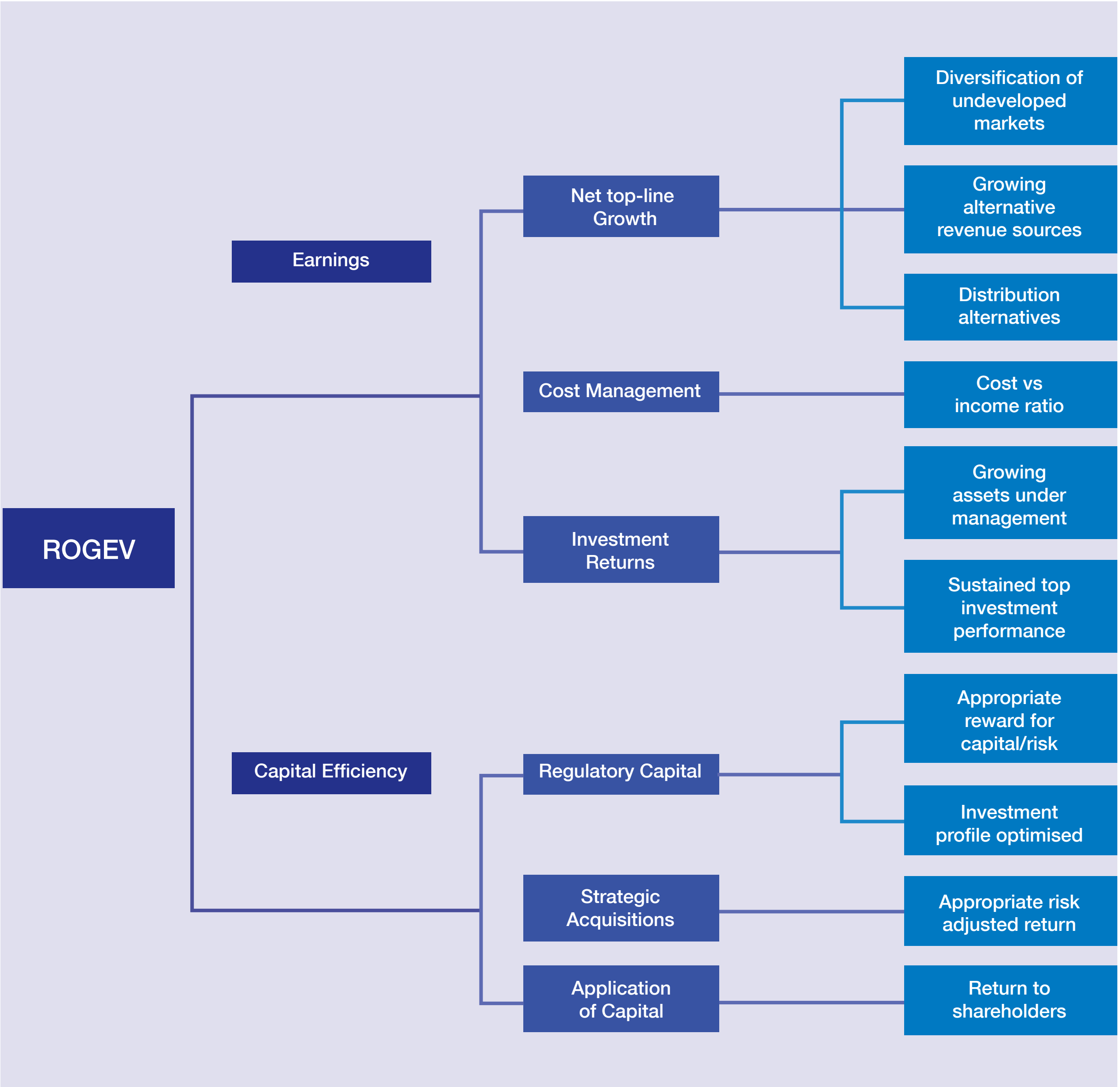
THE BIHL GROUP'S PERFORMANCE MEASUREMENT AND financial communication philosophy is based on its values which include transparency, honesty and integrity. We are therefore passionate about providing useful, clear and value-added information in our financial statements to our shareholders and other stakeholders.

This is why the BIHL Annual Report contains significant additional information than is prescribed by International Financial Reporting Standards (IFRS). We view the requirements of IFRS and other relevant regulations and legislation as minimum compliance standards. Our disclosure is further aligned with the Group's internal reporting structure to ensure that external users of the financial statements have the same insight to the Group's financial results as BIHL's management.

The primary performance target of the BIHL Group is to optimise shareholder value through maximising the return on Group Equity Value (ROGEV) per share. This measure of performance is regarded as the most appropriate given the nature of the Group's business and incorporates the result of all the major value drivers in the business.

Financial Review (continued)

The interaction of these strategies can be illustrated as follows:



The performance indicators used by the Group to measure the success of the main components of its strategy are classified into the following categories

(a) Shareholder value (all strategic focus areas)
(b) Business volumes (future earnings growth)
(c) Earnings (earnings growth and costs efficiencies)
(d) Capital management

(a) Shareholder Value

The BIHL Group delivered a solid and stable performance in 2010 – a year characterised by continued uncertainties in world financial markets. Despite the ongoing financial turmoil, our conservative investment strategy for shareholder assets and prudent management approach have resulted in our business remaining financially strong. This is testament to the Group's resilience. Financial strength is important as it demonstrates our solvency and stability and inspires confidence in the company. We continue to meet all our capital requirements comfortably. Our capital position is strong with required capital covered 7.1 times (December 2009: 6.2 times)

(b) Business volumes

Business volumes have a direct impact on the Group's assets under management and administration and commensurately on future earnings growth. In addition to business volume indicators, the Value of the New Business indicator measures the profitability of new life insurance business written during the year.

New business volumes

New business volumes measure the total new life insurance and investment business written by the Group's operations during the year. New business contributes to the Group's assets under management and administration and thus increases the asset base from which the Group earns financial services income.

Net fund flows

Net fund flows are the aggregate of the following:

> New business volumes written during the year;
> Premiums earned from existing business in force at the beginning of the year; and
> Payments to clients

Net fund flows are a measure of the net business retained within the Group and have a direct impact on the Group's assets under management and administration and commensurately the asset base on which the Group earns financial services income.

	2010 P'000	2009 P'000
Life insurance business:		
Recurring	210,222	197,263
Single	855,928	557,677
Total new business	1,066,151	754,940
Recurring	541,959	504,850
Single	(4,432)	(979)
Total existing business	537,527	503 871
Outflows	(695,827)	(524,342)
Net funds flows	907,851	734,469
Asset Management Business:		
Inflows	475,776	1,379,796
Outflows	(307,080)	(989,031)
Net funds flows	168,696	390,765
Total net funds flows	1,076,547	1,125,233

The Group's net fund flows decreased by 4% from P1,13 billion to P1,08 billion in 2010, a strong performance in challenging conditions where consumers and businesses alike were under pressure. The Group has also been successful in retaining funds under management.

Value of new business and new business margin

The value of new business measures the net present value of future shareholder profits that the Group expects to earn from the new life insurance business written during the year. The new business margin is an indicator of the profitability of the new insurance business written during the year.

Value of new business for the year ended 31 December 2010

	2010 P'000	2009 P'000
Value of new covered business	132,346	113,602
Present value of new business premiums	1,639,421	1,317,802
New covered business margin	8.07%	8.62%

The value of new life business increased by 16% to P132.3 million. The increase is mainly due to growth in new business volumes. New business margins have been maintained at satisfactory levels, albeit affected by the worsening persistency.

(c) Earnings

BIHL uses four key indicators to asses earnings performance and operational efficiencies: operating profit, core earnings, administration cost ratio, and return on embedded value.

Operating profit

This is the earnings from the Group's operating activities, net of non-controlling interest.

Core earnings

Core earnings is the aggregate of the net result of operating profit and net investment income earned on the Group's capital. It is an indication of stable earnings as it incorporates the relatively 'stable' portion of the investment return earned on the capital - investment income (interest, dividends and rental) - but excludes investment surpluses which are volatile in nature owing to fluctuations in investment markets.

Administration cost ratio

The administration cost ratio measures the administration costs incurred by the Group as a percentage of premium income and fees. This ratio is an indicator of the cost and operational efficiency of the Group.

Return on Embedded Value

Growth in EV per share is the most appropriate performance indicator to measure the creation of value for shareholders as it indicates the value that has been created in the Group during the reporting period.

Financial Review (continued)

(i) Operating profit and Core earnings

	Year to 31Dec 2010 P'000	Year to 31Dec 2009 P'000	% change
Performance for the year to 31 December 2010			
Operating profit	281,071	250,590	12%
Investment income on shareholders' assets	58,086	57,397	1%
Core earnings	339,157	307,987	10%
Share of profit of associate net of tax	72,217	26,821	169%
Investment losses on shareholders' assets	(9,435)	(77,590)	88%
Profit before tax	401,939	257,216	56%
Tax	(69,456)	(19,544)	-
Profit after tax	332,483	237,672	40%
Non controlling interests	(9,933)	(10,370)	-
Profit attributable to ordinary shareholders	322,550	227,302	42%

Operating profit (operational result excluding investment income and investment surpluses) increased by 12% to P281.1 million. The increase was as a result of good operational performance from both the life insurance and asset management businesses.

Investment income comprises interest and dividend income increased by 1% to P58.1 million. Investment losses declined by 88% to P9.4 million due to the recovery in financial markets.

Share of profit of associates significantly increased to P72.2 million due to the acquisition of an associate in the second half of 2009.

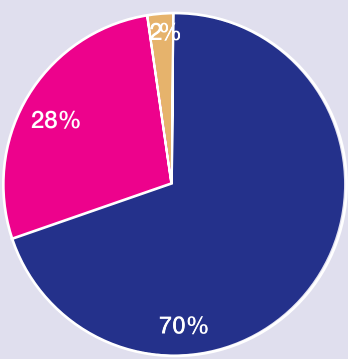
"The primary performance target of the BIHL Group is to optimise shareholder value through maximising the return on Group Equity Value (ROGEV) per share. "

2010 Segment Contribution

The contribution to the Group's results by the operating segments was as follows:

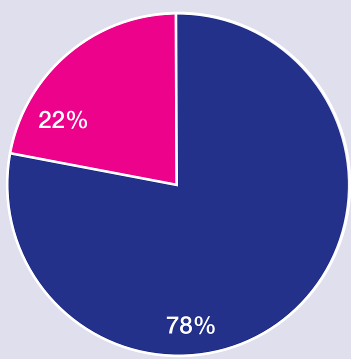
	Life insurance business P'000	Asset mangement business P'000	Consolidation adjustments and other P'000	Total P'000
Contribution to earnings - year to 31 December 2010				
Operating profit	206,070	70,293	4,707	281,071
Investment income on shareholders' assets	31,323	24,533	2,230	58,086
Core earnings	237,393	94,827	6,937	339,157
Share of profit of associates, net of tax	-	1,740	70,477	72,217
Investment surpluses on shareholders' assets	10,170	14,146	(33,751)	(9,435)
Tax	(46,083)	(18,982)	(4,391)	(69,456)
Non-controlling interest		(9,933)	-	(9,933)
Profit attributable to equity holders of parent	201,480	81,797	39,272	322,550
Contribution to earnings - year to 31 December 2009				
Operating profit	191,010	59,580	-	250,590
Investment income on shareholders' assets	49,636	7,761	-	57,397
Core earnings	240,646	67,340	-	307,986
Share of profit of associate, net of tax	25,417	1,404	26,821	
Investment surpluses on shareholders' assets	(67,602)	11,807	(21,795)	(77,591)
Tax	705	(20,249)	-	(19,544)
Non-controlling interest	-	10,370	-	10,370
Profit attributable to equity holders of parent	173,748	48,528	(21,795)	227,302

2010 Contribution to earnings



Life insurance business
Asset management business
Other

2009 Contribution to earnings



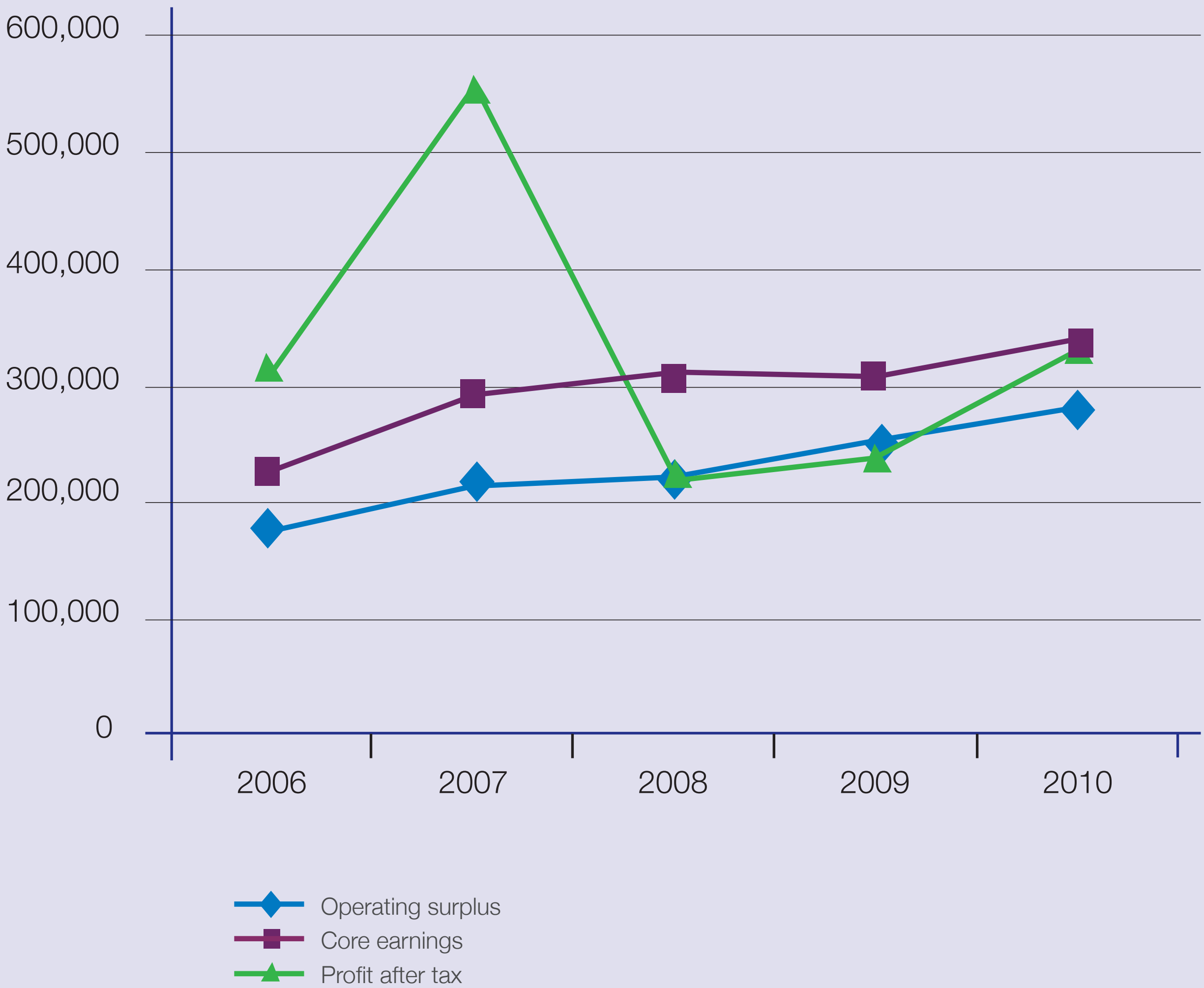
Life insurance business
Asset management business

Financial Review (continued)

The performance over the past five years is as follows:

	2010 P'000	2009 P'000	2008 P'000	2007 P'000	2006 P'000
Operating surplus	281,071	250 590	222,442	216,202	179,263
Investment income on shareholders' assets	58,086	57 397	88,395	75 807	48,365
Core earnings	339,157	307 987	310,837	292 009	227,628
Share of profits of associates , net of tax	72,217	26 821	9,802	4,001	2,304
Investment (losses)/surpluses on shareholders' assets	(9,435)	(77 591)	(85,140)	307,675	163,147
Tax	(69,456)	(19,544)	(14,037)	(49,867)	(77,021)
Profit after tax	332,483	237,672	221,461	553 818	316,058
Non-controlling interest	(9,933)	10,370	19,205	19 695	6,450
Profit attributable to ordinary equity holders of the parent.	322,550	227,302	202,256	534,123	309,608

The performance over the past five years is as follows:



Share of Profit of Associates 169%

P72.2 million

Investment Losses 88%

P9.4 million

Financial Review (continued)

(ii) Administration cost ratio

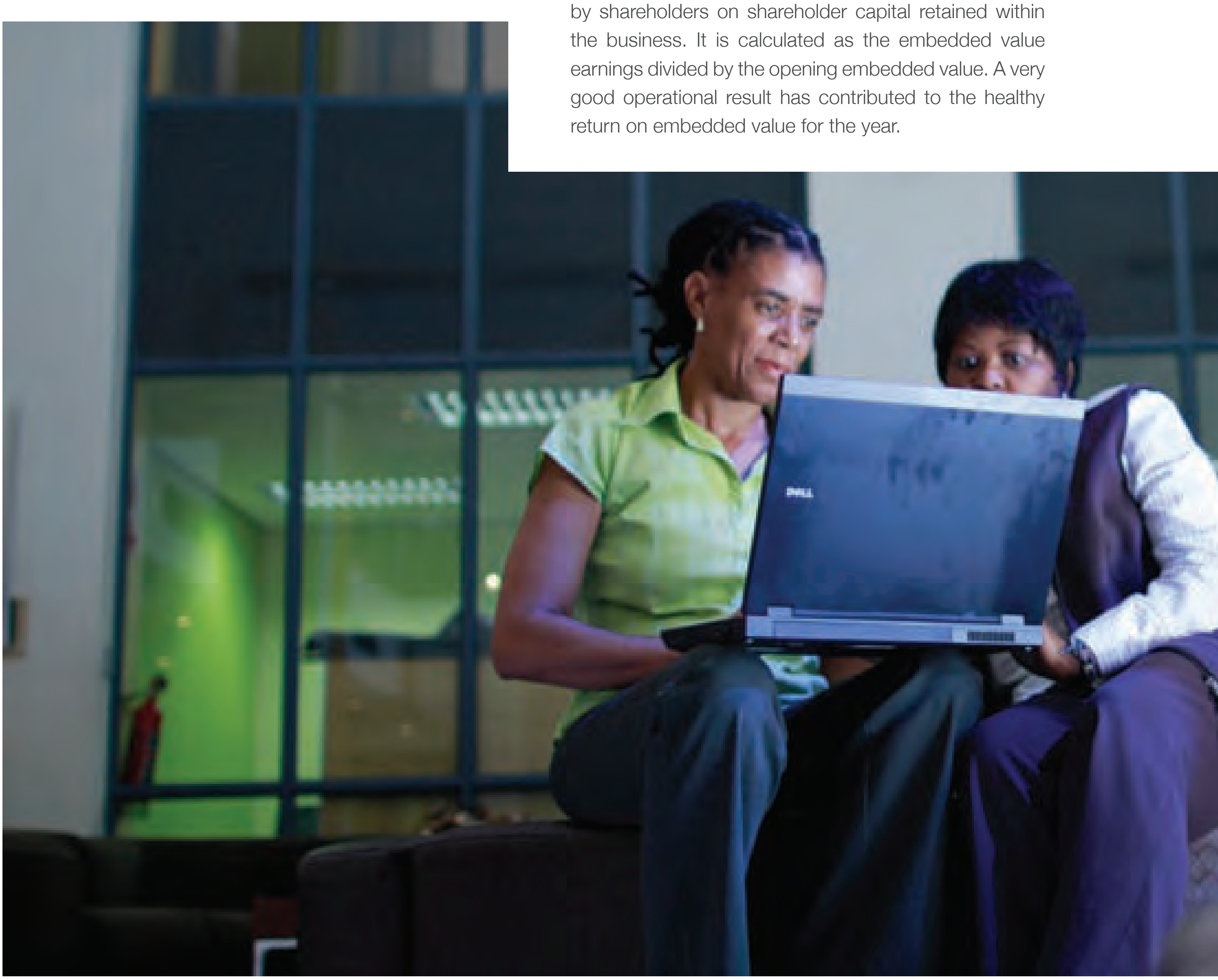
The administration cost ratio for the year was 25.6% (31 December 2009: 28%). This reflects the Group's focus on cost control and operational efficiency.

(iii) Return on embedded value

Growth in EV per share is the most appropriate performance indicator to measure the creation of value for shareholders as it indicates the value that has been created in the Group during the reporting period.

	2010 P'000	2009 P'000	2008 P'000
Embedded value at end of period	2,406,628	2,221,097	1,984,848
Embedded value at beginning of period	2,221,097	1,984,848	1,781,163
Change in embedded value	185,531	236,249	203,685
Dividends paid	216,424	261,396	147,703
Embedded value earnings	401,955	497,645	351,388
Return on embedded value (ROEV)% p.a.	18%	25%	20%

Return on embedded value measures the return earned by shareholders on shareholder capital retained within the business. It is calculated as the embedded value earnings divided by the opening embedded value. A very good operational result has contributed to the healthy return on embedded value for the year.



(d) Capital management

The effective management of BIHL's capital base is an essential component in meeting the Group's strategic objective of maximising shareholder value. This requires a continuous review of the optimal capital levels for existing businesses, including the possible use of alternative sources of funding, a strong bias for capital efficiency in new ventures and products and, when required, the termination of capital inefficient businesses or product lines. The Group has an integrated capital and risk management approach. The amount of capital required by and allocated to the various businesses as well as the expected return hurdles are directly linked to their exposure to financial and operational risks.

The level and nature of the supporting capital is determined by minimum regulatory capital requirements as well as economic, risk and growth considerations. Regulatory capital must comply with specific requirements. For BIHL, a stochastic modelling process is used to assist in determining long-term required capital levels that, within a 95% confidence level, will be able to cover the minimum statutory capital adequacy requirement (CAR) at least 1,5 times over each of the next 10 year-ends. The fair value of other Group operations includes the working capital allocated to the respective operations.

The Group's approach to ensure appropriate working capital levels in these operations is twofold:

> The Group's internal dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and

> Performance targets are set for other Group operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

Capital management - Covered business (life insurance operations)

The Group's covered business requires significantly higher levels of allocated capital than the other Group operations. The optimisation of long-term required capital is accordingly a primary focus area of the Group's capital management philosophy given the significant potential to enhance shareholder value. The following main strategies are used to achieve this objective:

> Appropriate matching of assets and liabilities for policyholder solutions. This is especially important for long-duration policyholder solutions that expose the Group to interest rate risk, e.g. non-participating annuities.

> Managing the impact of new business on capital requirements by limiting volumes of capital-intensive new business.

> The asset mix of the long-term required capital also impacts the overall capital requirement. An increased exposure to hedged equity and interest-bearing instruments reduces the volatility of the capital base and accordingly also the capital requirement. Over the longer term, however, the expected investment return on these instruments is lower than equity with a potential negative impact on the return on ROEV. There is accordingly a trade-off between lower capital levels and the return on capital. The Group's stochastic capital model is used as input to determine the optimal asset mix in this regard.

> The introduction of long-term debt into the life insurance operation's capital structure and the concurrent investment of the proceeds in bonds and other liquid assets to reduce the volatility in the regulatory capital base, with a consequential lower overall capital requirement.

Financial Review (continued)

> Certain of the Group's investments in other Group operations qualify, to varying degrees, to be utilised as regulatory capital for the covered business. Maximum capital efficiency can therefore be achieved by optimising the level of such investments held in the life companys' regulatory capital.

> Management of operational risk - Internal controls and various other operational risk management processes are used to reduce operational risk and commensurately the allowance for this risk in the calculation of required capital.

The Group continues to improve and further develop its capital management models and processes in line with international best practice and the current significant international developments surrounding solvency and capital requirements (for example the Solvency II initiative in the European Union).

Other Group operations
The performance measurement of other Group operations is based on the return achieved on the fair value of the businesses. Risk-adjusted return targets are set for the businesses to ensure that each business's return target takes cognisance of the inherent risks in the business. This approach ensures that the management teams are focused on operational strategies that will optimise the return on fair value, thereby contributing to the Group's main objective of optimising return on ROEV.

Discretionary capital
Any capital in excess of requirements, and not optimally utilised, is identified on a continuous basis. The pursuit of structural growth initiatives has been set as the preferred application of Group capital, subject to such initiatives yielding the applicable hurdle rate and being complementary to or in support of Group strategy. Any discretionary capital not being efficiently redeployed will be returned to shareholders in the most effective form.

1. Shareholder Income Statement

For the year ended 31 December 2010

	2010 P'000	2009 P'000
Financial services income	1,223,188	956,428
External clients	1,223,188	956,428
Inter-company	-	-
Sales remuneration	(296,898)	(245,028)
Income after sales remuneration	926,290	711,400
Underwriting policy benefits	(408,017)	(258,026)
Administration costs	(237,203)	(202,787)
Result from financial services before tax	281,070	250,587
Tax on financial services income	(75,019)	(62,647)
Result from financial services after tax	206,051	187,940
Non-controlling interest	(7,456)	(9,264)
NET RESULT FROM FINANCIAL SERVICES	**198,595**	**178,940**
Net investment income	41,495	40,280
Investment income	58,086	52,219
Tax on investment income	(14,114)	(11,734)
Non-controlling interest	(2,477)	(204)
CORE EARNINGS	**240,090**	**218,955**
Net equity-accounted headline earnings	72,217	26,821
Equity-accounted headline earnings	96,089	37,570
Tax on equity-accounted headline earnings	(23,873)	(10,749)
Non-controlling interest	-	-
Net investment surpluses	(4,768)	(57,839)
Investment surpluses	(9,345)	(72,411)
Tax on investment surpluses	4,666	15,473
Non-controlling interest	1	(901)
Net secondary tax on companies	15,011	39,366
Secondary tax on companies	15,011	39,366
Non-controlling interest	-	-
HEADLINE EARNINGS	**322,550**	**227,303**
ATTRIBUTABLE EARNINGS	**322,550**	**227,303**

Financial Review (continued)

Total shareholders' fund investment mix 2010 (P'000)

2. Ordinary shareholders' assets

Equity attributable to equity holders of the parent company was represented by:

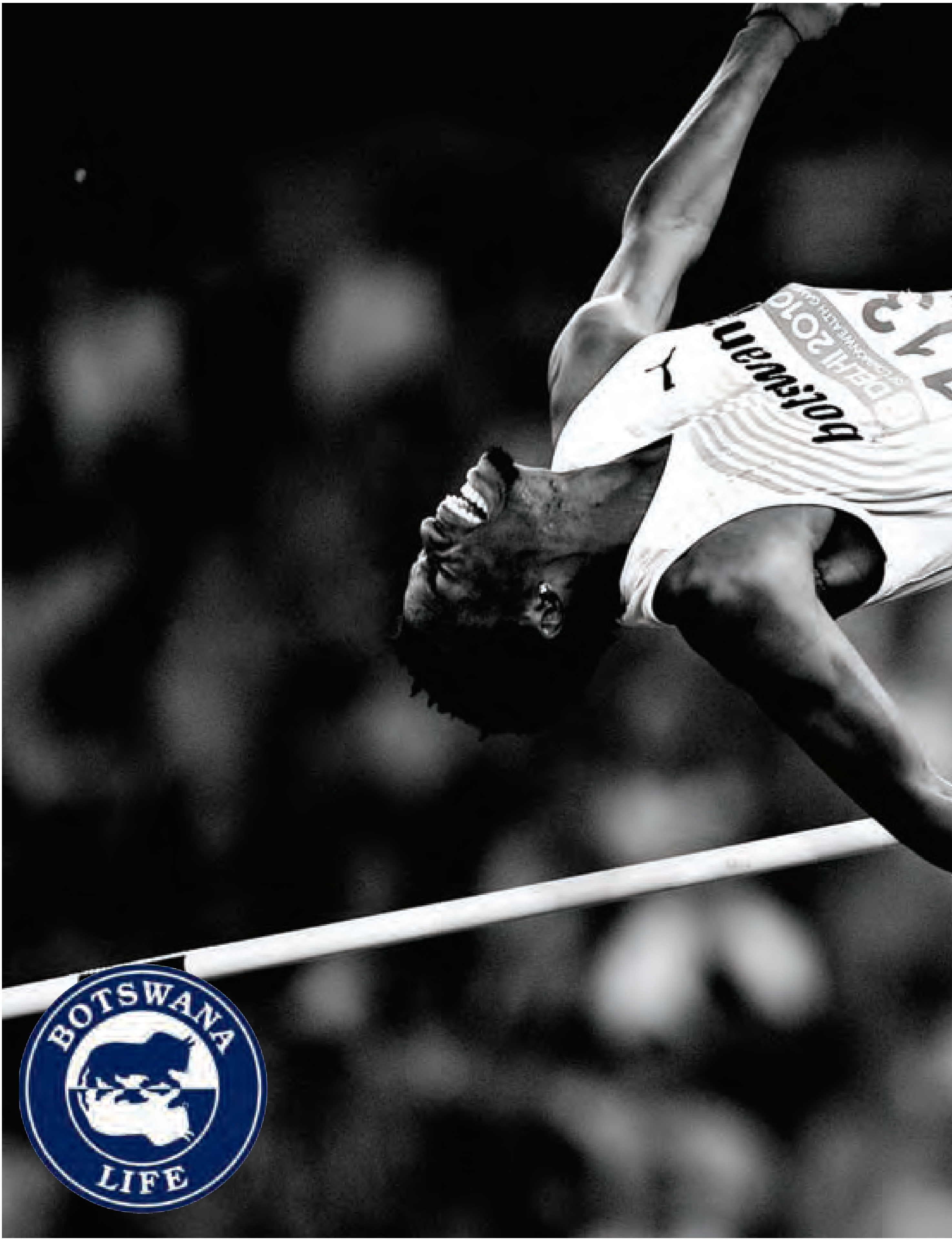
	2010 P'000	2009 P'000 Restated	2008 P'000 Restated
ASSETS			
Property, equipment and computer software	36,828	21,664	19 466
Goodwill	121,806	79,446	77 244
Investments	1,420,992	1,296,974	1,269,756
Investment properties	96,476	131,966	107 220
Equity-accounted investments	476,823	321,054	34,970
Equities and similar securities	282,145	109,973	630,618
Public sector stocks and loans	74,180	59,428	64,940
Debentures, insurance policies, and other loans	149,557	244,044	35,521
Cash, deposits and similar securities	346,812	430,509	396,487
Net trade and other payables, deferred tax	(11,204)	(47,207)	29,343
Cash, deposits and similar securities	113,990	45,543	20,654
Non-controlling interests	(31,095)	(35,042)	(31,094)
	1,651,317	1,361,378	1,385,369

Total shareholders' fund investment mix 2009 (P'000)

3. Dividend

The Directors have resolved to award a final dividend for the period, net of tax, of 34.85 thebe per share. The dividend payment for the year, net of tax is as follows;

	Interim, already paid	Final	Year to 31 Dec 2010 (interim and final)	Year to 31 Dec 2009 (interim and final)
Normal dividend	21.25	34.85	56.10	44.20
Special dividend	-	-	-	14.45
	21.25	34.85	56.10	58.65


botswana
BOTSWANA
LIFE

Botswana Life in Brief

No. of Recurring Premium Policies 4%

292 897

Net Insurance Benefits and Claims 36%

713 million

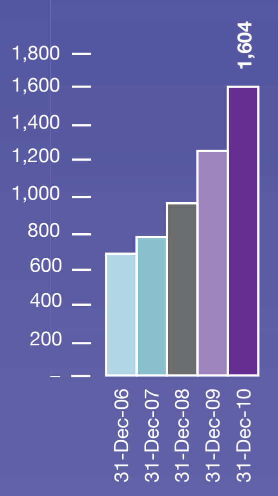
Net Premium Income 29%

P1.6 billion

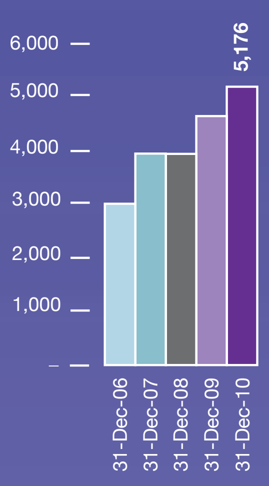
Total Assets 14%

P5.2 billion

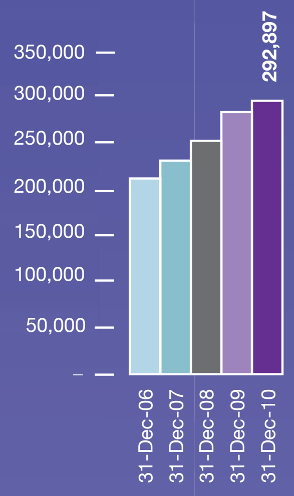
Premium Income
(Pula million)



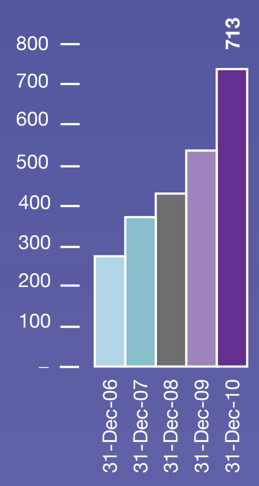
Total Assets
(Pula '000)



No. of Recurring
Premium Policies



Net Insurance
Benefits and Claims
(Pula million)



BOTSWANA LIFE'S RESULTS FOR 2010 ARE REFLECTIVE OF the state of the economy; persistent economic downturn and shrinking consumer disposable income along with tightening corporate budgets. Overall however, the company delivered a solid set of results, thanks to the support of our corporate and retail clients, all our business partners and the broker community as well as the commitment and dedication of the management and staff.

While some of our lines of business came under pressure, others – notably Credit Life and Annuity - did remarkably well. The continued pressure on household incomes manifested in a deterioration in lapses and surrenders, negatively affecting our ability to grow our individual life book. On the corporate front, we were able to retain all key corporate accounts in the face of aggressive competitor pricing that put pressure on our margins.

A highlight of the review period was the implementation of a fully fledged contact centre as a sales and service channel. This has been well received by the market and it enables us to improve our levels of customer service and convenience. The development of a client-centric life administration system is proceeding well. Due to go live in the third quarter of the year, it will result in operational efficiencies and open the way for the introduction of important product and service innovations.

Looking ahead

The likely promulgation of a new Insurance Act later this year is expected to affect the way we all do business. We are already taking proactive steps to prepare both ourselves and our partners to deal with the amended rules and regulations.

Meanwhile, although the country is starting to move out of recession, it will be some time before pressure on our customers eases. The challenges of 2010 will therefore continue well into 2011 and we anticipate an even more contested competitive landscape across all lines of business.

However, the fact that new competitors are entering the market clearly indicates that our market is not yet saturated. There is business to be done, and people who need insurance can look forward to an improved and diversified product range from Botswana Life. New business development and customer service strategies, coupled with a strong focus on conservation will ensure a continued satisfactory performance in the current year.

Botswana Life Management



Catherine Lesetedi - Letegele
BLIL CEO

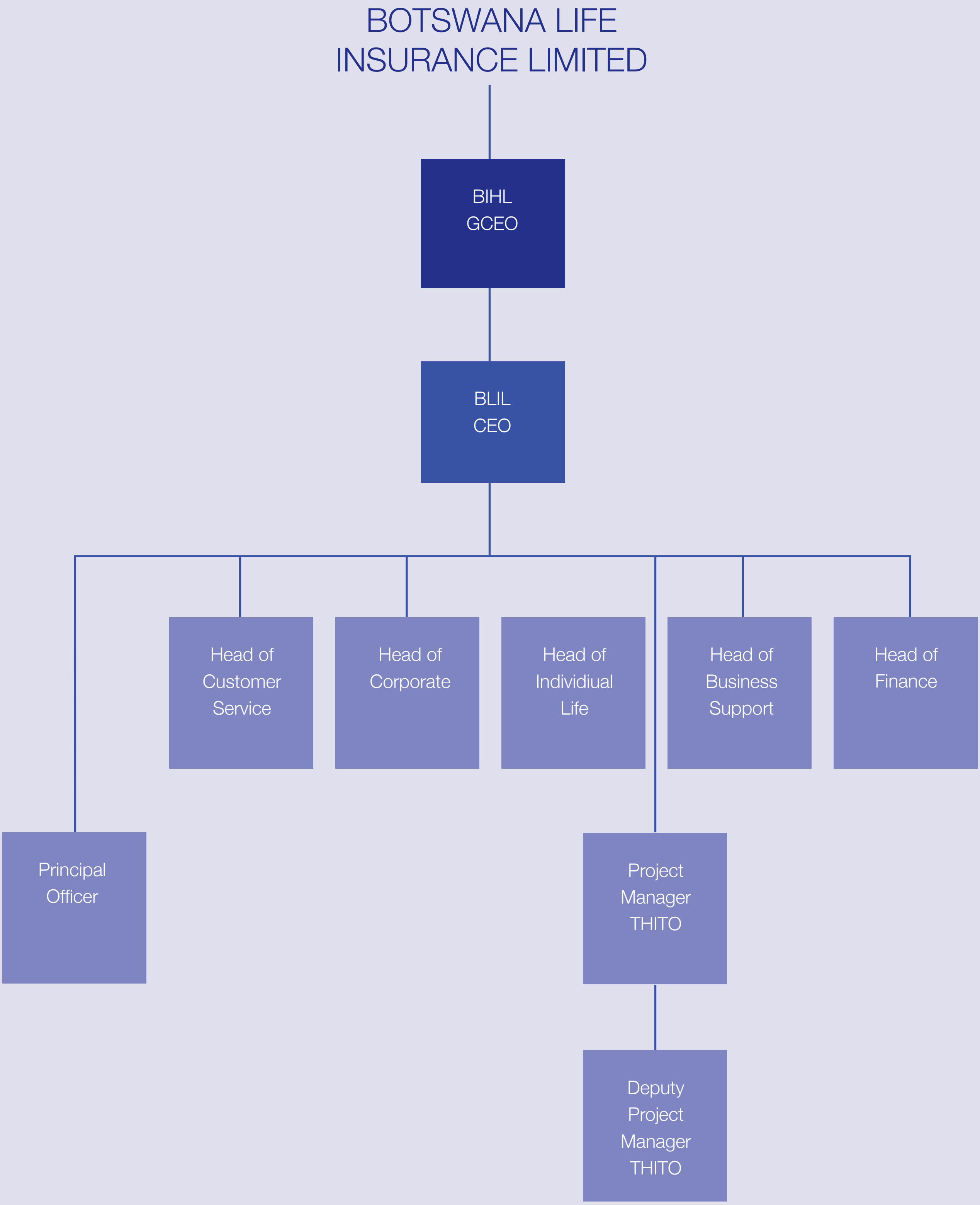
Lorato Mosetlhanyane
Head of Finance

Jaco van Loggerenberg
Head of Individual Life


Kathiresan Subburaj
Project Manager, THITO

Linah Sekwababe
Deputy Project Manager, THITO

Botswana Life Organisational Structure



BIHL
BLIL
Bifm
GOVERNANCE
REPORTS
AFS

CHIEF EXECUTIVE OFFICER'S REPORT

A resilient business that has **structures and mechanisms** to withstand external shocks

"2010 marked the second year of the implementation of BLIL's 2009 – 2013 Strategy which is underpinned by three pillars: consolidation and retention of clients; expansion of channels; and diversification of our product offering."

BOTSWANA LIFE'S RESULTS FOR 2010 ARE reflective of the state of the economy and what was a volatile year. In addition, the results are indicative of a resilient business that has structures and mechanisms to withstand external shocks. Overall, the company delivered a solid set of results, thanks to the support of our corporate and retail clients, all our business partners and the broker community as well as the commitment and dedication of the management and staff.

The effects of the economic downturn persisted during 2010 and as consumers found their disposable income shrinking and corporates battled lower turnovers, certain lines of business came under pressure. Although this was generally the case, others lines did remarkably well.

The continued pressure on household incomes manifested as deterioration in lapses and surrenders, negatively affecting our ability to grow our individual life book. On the corporate front, we faced aggressive competitor pricing putting pressure on our margins. Notwithstanding this, we were able to retain all key corporate accounts. Yet despite all this, Botswana Life demonstrated why it remains the country's largest life assurance company by turning in an overall performance that was more than satisfactory in the circumstances.

Net premium income rose by an impressive 29% to P1,620 million, while new business premium increased to P384 million (25%). The value of new business reached a satisfactory P120 million and contributed to an 8% rise in operating profit to P208 million.

Main Picture: *Catherine Lesetedi - Letegele, BLIL CEO*

Chief Executive Officer's Report (continued)

Our focus on diversifying income streams paid off as evidenced by good growth from the corporate environment when the retail segment was under pressure. The achievement of our key performance indicators was largely attributable to the outstanding performance of the Credit Life and Annuity lines of business and a favourable mortality experience.

During the year, we implemented a fully fledged contact centre as a sales and service channel. We are very pleased to report that our clients have fully embraced the contact centre as reflected by the more than 90,000 client calls that were handled through this channel. The acceptance of the contact centre as an extension of our branch network fulfils an expectation gap from our clients. In 2011 we will be rolling out more services through the contact centre as a response to customer demands for a convenient way of dealing with Botswana Life.

Furthermore, we will start selling the Mosako Funeral Plan through this channel making Botswana Life the first life insurance company to sell directly to the market through a contact centre. We have also been very involved in the development of a client centric life administration system which is scheduled to go live in early July 2011. Apart from bringing about operational efficiencies, the system will significantly reduce the window period for product development and will incorporate an aspect of self service. In this regard, our clients can look forward to much improved service levels as a well as quick responses to product development needs.

Operational Review

We were able to outperform most of our key performance indicators. Total revenue (net of reinsurance) increased by a sterling 27% from P1.2 billion to P1.6 billion. The Annual

"At Botswana Life, we are passionate about making our products and services accessible to all segments of the population, in part responding to concerns from Government that financial services companies are not making an attempt to make their products and services accessible to sector of the market. "

Premium Equivalent increased by 25% from prior 2009, from P307 million to P384 million. This is a reflection of the significant growth in annuity and credit life sales. Value of New Business increased by 16% over prior year and operating profit grew by 8% over 2009. Our prudent underwriting techniques also paid off and positively contributed to the achievement of the pleasing operating profit.

Group Life and Funeral

The Group life line was faced with aggressive competitor pricing putting pressure on margins. We expect this competitor behaviour to continue into 2011 as new entrants establish themselves. The relatively inexpensive infrastructure for Group Business (relative to retail individual life business) has attracted new entrants and with nearly 85% of the market share, Botswana Life Insurance Ltd has been the main target of competitors.

Credit Life & Bancassurance

This line performed beyond expectations given the economic conditions that prevailed. Our impression is that the implementation of the new Public Service Act which resulted in a salary increase managed to boost household incomes and civil servants were able to top up their loans, hence the significant in-flows. Unfortunately, as the current year got underway, one of our longstanding Credit Life partners, Barclays Bank, announced that they would be moving their business to Absa Life, which recently registered as a life company in Botswana. Absa Life is a member of the Barclays Group. We continue to face challenges on the sale of insurance products through our main partner Standard Chartered Bank. The main challenge for us in this line of business is a lack of qualified insurance agents who can sell for the bank. In addition, bancassurance is a new concept in Botswana and will take time to be understood by the market. We continue to work with the bank to overcome these challenges.

Annuities

2010 was a year of two very distinct halves for our Annuities line. The first half was frighteningly poor as interest rate pressure forced a review of our pricing which was uncompetitive relative to the market. During the second half of the year we were able to bring to market, a competitively priced option for our annuity policy holders – a guarantee term of 20 instead of only 5 and 10 years.

Market response to this move has been overwhelming. Sales volumes increased and we were able to close the shortfall from the first six months of the year. Sales were boosted by the new Public Service Act lowering the retirement age of civil servants by five years to 45. This resulted in a large contingent of individuals simultaneously entering the market for a well-priced annuity product with excellent benefits such as that provided by Botswana Life.

Individual Life

This line of business is particularly susceptible to changes in disposable income as individuals choose how to balance their personal budgets. Due to the ongoing pressure on disposable income, it was difficult to attract new business.

In addition, lapses in policies, particularly those with a surrender value, increased significantly. Despite this, we managed to grow premium income by 6%, a remarkable achievement in the midst of difficult circumstances. A conservation strategy to reduce policy lapses is currently being put in place and we anticipate positive results from this in the not too distant future.

The Unbanked and Under-banked

At Botswana Life, we are passionate about making our products and services accessible to all segments of the population, in part responding to concerns from government that financial services companies are not making an attempt to make their products and services accessible to sector of the market.

Through our partnership with Botswana Post, we can take pride in the knowledge that we are the first life insurance company to take a low cost funeral plan - Mosako - to the unbanked and under-banked segment. The take up rate for Mosako is very pleasing, indicating that we are meeting a much needed demand and demonstrating our commitment to reaching out to all of the people of Botswana. Average monthly premiums for the Mosako funeral plan have increased from P50,000 to P200, 000 over a five year period. We expect this growth to continue as we start selling this plan through the contact centre.

Looking Ahead

While the country is starting to move out of recession, it will be some time before pressure on our customers eases. The challenges of the review period will therefore continue well into 2011 and we anticipate an even more contested competitive landscape across all lines of business.

This, however, does mean we have to be more innovative in how we approach our business. We are confident that our new business development and customer service strategies, coupled with a strong focus on conservation will ensure a continued satisfactory performance in the current year. We will be launching a new direct-to-market product in the first half of the current year, utilising our new contact centre to reach the target market. Other innovative new products are also in development and these will be introduced as the year progresses.

A key focus during the current year will be on strengthening our distribution channels and deepening our relationships with our distribution partners. They are vitally important to our continued success. The likely promulgation of a new Insurance Act later this year is expected to affect the way we all do business. In particular, our partners will be under pressure to comply with the new prudential rules and regulations, particularly those relating to disclosure and commissions.

While the details of the changes are not yet known, we are already taking proactive steps to prepare both ourselves and our partners to deal with the amended rules and regulations.

I am confident that the solid team we have at Botswana Life will continue to deal with all the challenges facing us. They understand the company and where we want to take it. I want to thank them for their dedication, commitment and unwavering support following my appointment as CEO of Botswana Life. The results we achieved in this most difficult year are a tribute to the entire Botswana Life team.

Catherine Lesetedi-Letegele
BLIL Chief Executive Officer

Botswana Life Insurance Limited

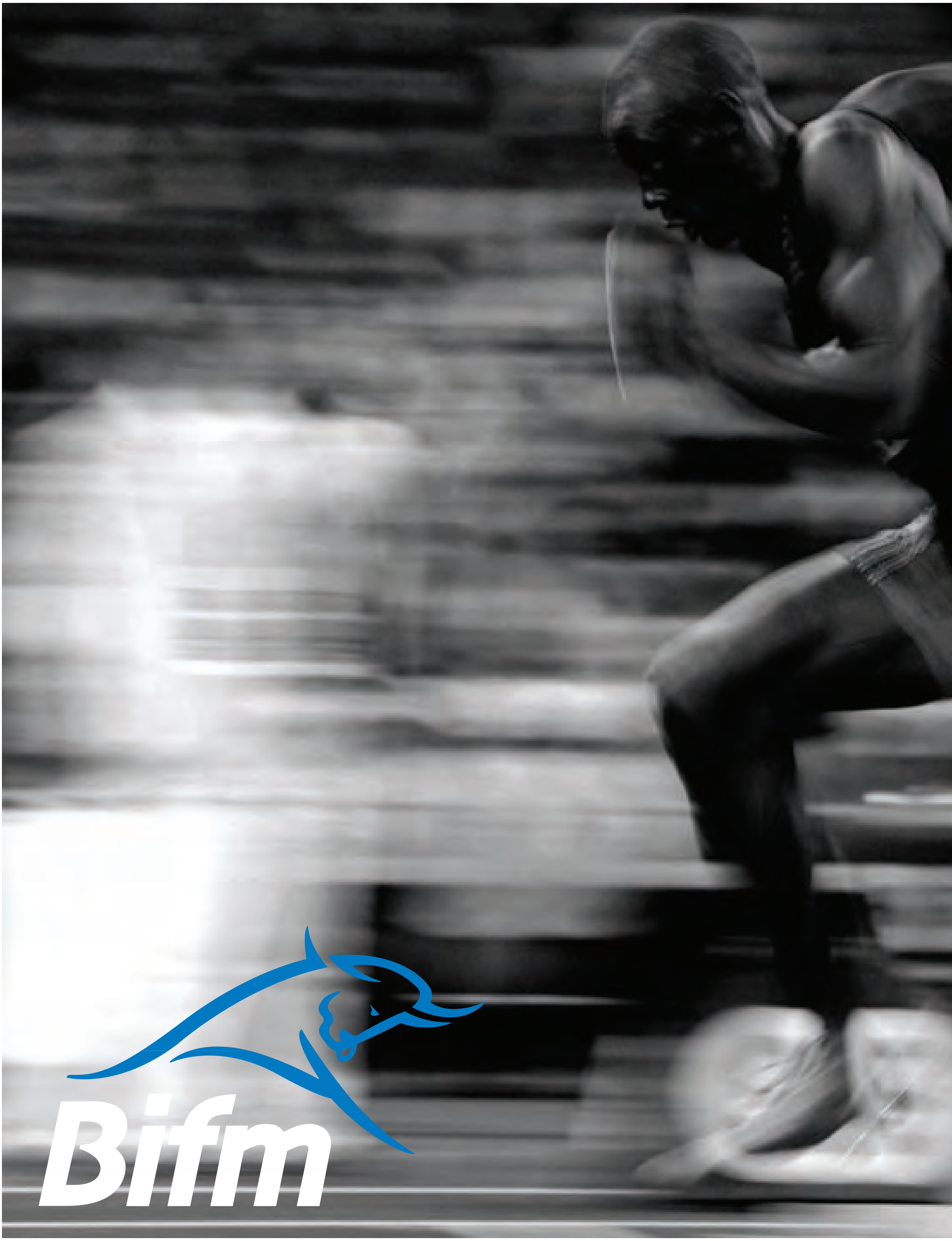
THITO Project

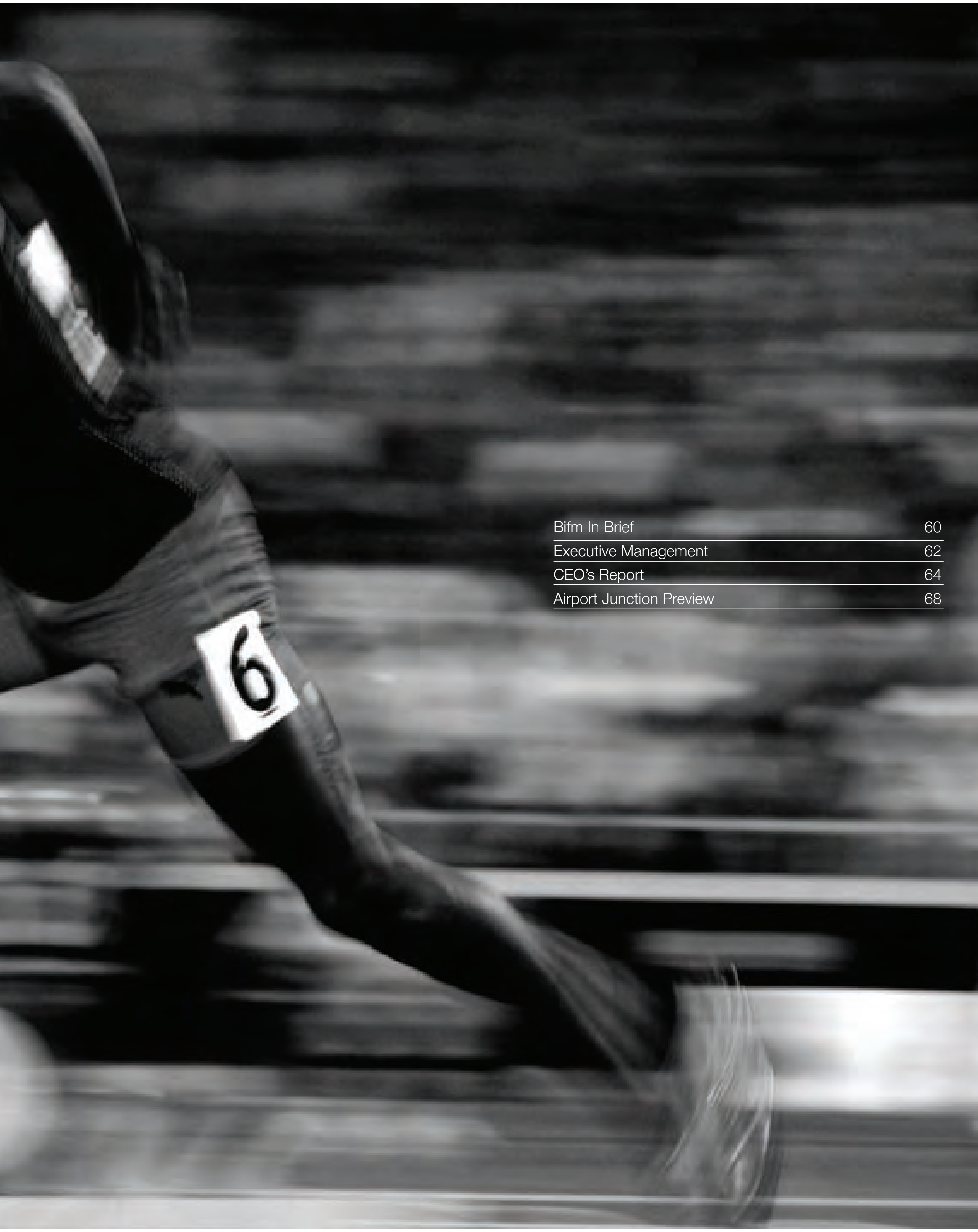
Project THITO was launched last year to move the administration of new Individual Life policies from the current in-house developed IT system to new admin system. The in-house developed policy administration system was reaching its end of life; it is not flexible enough to suit the client centric service delivery strategy of BLIL. After a detailed research and careful evaluation Botswana life has chosen an IT system called eBaoTech Life System as the core system.

eBaoTech life system is used in more than 20 countries by leading insurance companies. The system provides the following tools to improve the customer service.

> One-point service: as a true customer centric and centralized solution, applications no matter through which channel and where a customer bought the policy or submitted a service request, requests are processed through an Integrated work flow which automates all business processes involved in the administration of the policies.
> An integrated document Imaging Technology allows paperless operation, increasing flexibility and efficiency.
> Increased automation of business rules and validations reducing the need for manual checking and also increases the efficiency.
> Integration with SMS and eMail systems. Clients will be informed about the status of their policies through SMS / eMail.
> Flexible rule engines and formulae engine reduces the new product development cycle from months to weeks. BLIL can respond to market needs much faster with the launch of new products.
> To improve risk management and control processes in the operation thus increasing the efficiency.
> BLIL business partners (Agents / Brokers) can have a direct access to system to assist their clients directly without necessarily referring all queries to BLIL.

The customisation and configuration of the system is complete, BLIL is currently doing the user acceptance testing of the system. The system is expected to go live from July 2011.


Bifm



Bifm in Brief

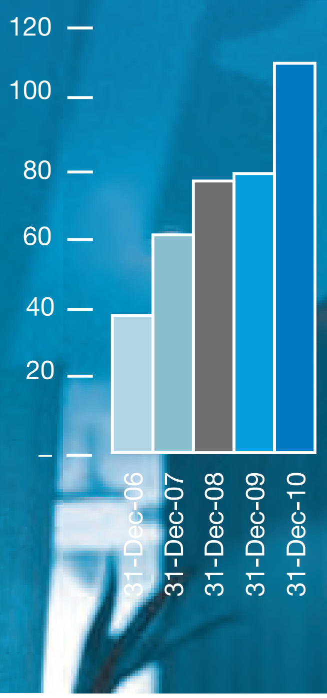
Profit before Tax 40%

P111 million

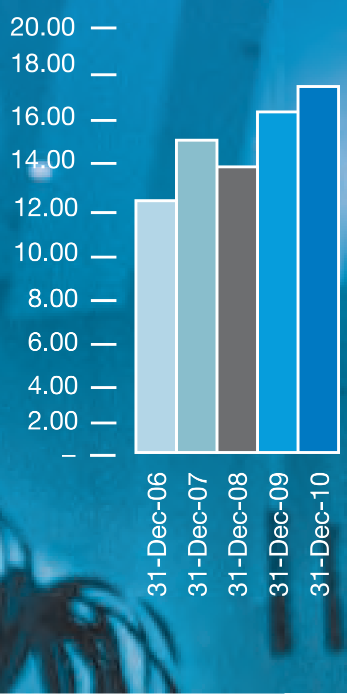
Assets under Management 6%

P17.5 billion

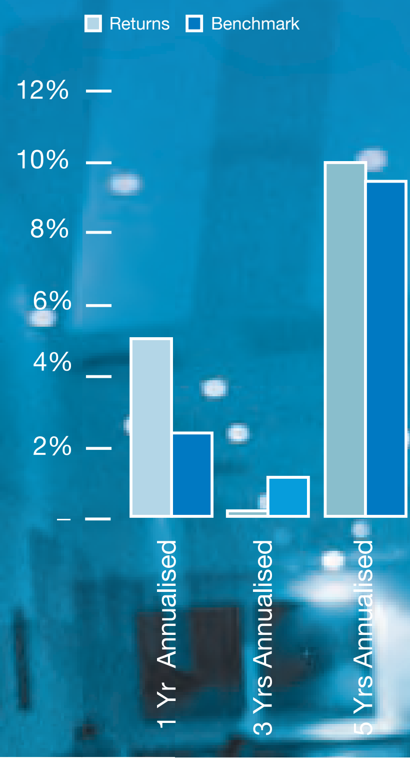
Profit before Tax
(Pula million)



Assets under Management
(Pula billion)



Performance Trend
(5 Years)



THE YEAR 2010 WAS A TOUGH YEAR IN THE MARKETS WITH much uncertainty about recovery from the financial crisis of 2001. There was a contraction of the global financial markets, other than global bonds until the third quarter of the year. Thereafter, equity markets showed sharp improvements.

Bifm was well placed to take advantage of this rebound although the sharp appreciation of the Pula against the dollar distorted the value of our offshore investments.

A significant and unexpected sell-off in the local equity market in the fourth quarter of the year also affected Bifm negatively because of our tendency to be “overweight” in this area relative to our benchmarks.

Notwithstanding that, it was a good year for our financial investments and our asset management activities. Also boosting our bottom line was related income in the form of property which also did very well for us. Several of the subsidiaries also did well.

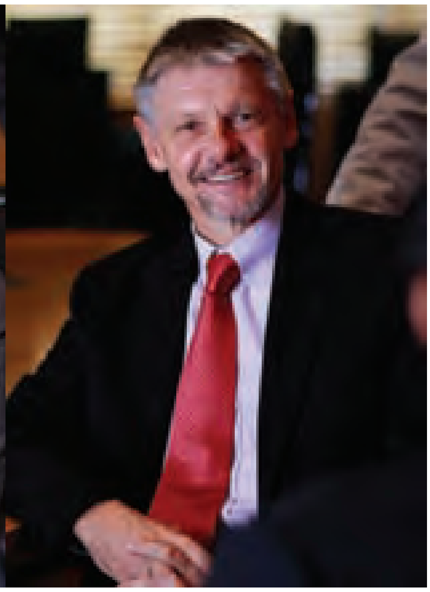
New regulations in Zambia have resulted in the sale of 21% of our shareholding in Aflife Zambia to our partner, Menell as at April 2011. This leaves Bifm with a minority 49% stake in the company. A new company, Quantum – in which Bifm is the majority shareholder – has been established to take control of Aflife’s property and cash assets.

Looking ahead

Bifm anticipates ongoing turbulent market conditions. The investment strategy has been adjusted in line with this. The strategy for the current year is focused on innovation. The Bifm Group’s product offering is being reviewed to ensure that customer expectations continue to be met.

Bifm Management

Tiny Kgatlwane
CEO, Bifm

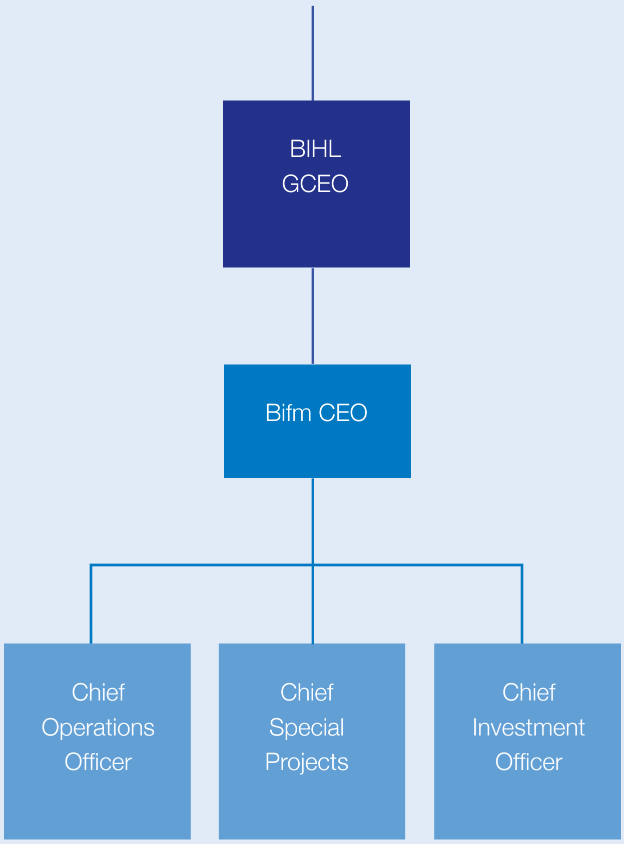


Stephen Mills
Chief Investment Officer

Seagiso Ramatshaba
Chief Operations Officer

Simon Ipe
Chief Special Projects

Bifm Organisational Structure



CHIEF EXECUTIVE OFFICER'S REPORT

There are always **opportunities, even when the markets are tough**

"Bifm is Botswana's largest asset manager, managing the country's long-term wealth on behalf of the pension industry and other institutional investors."

AS EXPECTED, 2010 WAS A TOUGH AND uncertain year in the markets. The focus of concern had shifted from the 2008/2009 sub-prime housing crisis in the United States to the sovereign debt problems in the Euro periphery. This left many questions around the shape of the recovery in 2010: would the world slowly sink back into a recession or would there be very slow growth? It was a very uncertain environment in which to operate. What we experienced right up to the third quarter was a contraction of the global financial markets, other than global bonds. It was only in the last four months of the year – September to December – that the markets started to believe that quality, good, and solid undervalued shares would hold their own and the market showed sharp improvements.

It is a truism that there are always opportunities, even when the markets are tough. Bifm was well placed to take advantage of the rebound in the markets and we gained well on that. However, the currency worked against us. The very sharp appreciation of the Pula against the Dollar was a key characteristic of 2010. We ended the year with the Rand/Pula basket very strong compared to the Dollar/Euro/Sterling. This distorted the values of our offshore investments. Converting our returns back into Pula detracted from the gains that resulted from our offshore diversification strategy.

Another feature of the year was the dramatic and unexpected sell-off in the local equity market that started in the fourth quarter of the year and gained momentum from mid-December. Because we have always liked – and supported – the local market, we were “overweight” in this area relative to our benchmarks. We paid quite a price for that but are recovering well as the new year progresses.

The fall in the Botswana market however, dampened the opportunities that we could have taken advantage of. Notwithstanding that, it was a good year for our financial investments and our asset management activities. Also boosting our bottom line was related income in the form of property which also did very well for us. Several of the subsidiaries also did well.

Results

That we ended the year with a gross income of P128.1 million, 6.21% over the previous reporting period, which was an amazing achievement given the economic climate. A strategic cost containment exercise succeeded in reducing our operating expenses by 10.69% against budget. This process is continuing. The result of all this was an increase in profit before tax of 18% over the previous year. A key highlight of the year was the fact that our assets under management grew from P15.7 billion to P17.5 billion or by 6% not necessarily because we won new mandates, but because our performance was good over the period.

Main Picture: *Tiny Kgatlwane, Bifm CEO*

Chief Executive Officer's Report (continued)

Back Office

Bifm is the oldest and one of the largest fund managers in Botswana. The time has come to upgrade our technology infrastructure in line with market demands.

We have formally launched a major upgrade project which is expected to go live during the current financial year. This will provide Bifm with a state of the art back office, resulting in improved efficiencies and enabling us to introduce a range of new innovations that will benefit our clients.

Property

Our diversification into property continues to pay handsome dividends for Bifm. All properties in portfolio are doing well and we are looking to strengthening the portfolio with good investment properties going forward. This will form part of an enhanced property strategy that is being developed to enable us to leverage our experience and expertise in this sector. We believe this can best be achieved with the launch of a formal property fund, and we anticipate that this will come to fruition in the current financial year.

Meanwhile Bifm continues to transform the Gaborone skyline with impressive new developments. The new seven-storey SADC headquarters in Gaborone's Central Business District, a US$30 million development, was officially handed over in October, a tribute to the power of Public Private Partnerships (PPPs). The building was constructed by the Bongwe Consortium which was made up of Bifm, Stocks and Stocks, ABSA, Barclays Bank of Botswana and Outsourcing Botswana. Another development that was completed during the review period was the Fairgrounds Financial Centre, which was developed by Stocker Fleetwood-Bird.

Bifm is also currently involved in another PPP, this time with Botswana Railways. This project will result in the construction of the new Rail Park Mall at the Gaborone Bus Station. We are participating in this project as both developer and shareholder. In addition, work has commenced on a P450 million lifestyle shopping mall at the airport junction in Gaborone. The development, another Bifm-Eris Property Group partnership, is expected to be officially open to the public in the early part of 2012.

Subsidiaries

Aflife Zambia - The company held its own during the review period, matching the previous year's performance with assets under management increasing to P1,7 billion. This was a satisfactory result given the uncertainties brought on by regulatory changes that took effect in Zambia in 2010.

In terms of the new regulations, foreign entities may no longer hold a majority share in asset management and

"Meanwhile Bifm continues to transform the Gaborone skyline with impressive new developments. "

employee benefit administration companies. Considerable focus was therefore devoted to efforts to restructure the company so as to comply with the regulatory requirements without unnecessarily impacting negatively on stakeholders.

All shareholder agreements have now been signed as at April 2011. Bifm has sold 21% of its shareholding to Menell, a citizen-owned Zambian company, giving Menell a majority stake (51%) in the company and Bifm 49%. Because Menell was a minority shareholder in Aflife Zambia, the change in shareholding has had no effect on stakeholders. It is business as usual and under the same management team. The Board of Directors also remains unchanged.

There will however be a negative effect on Bifm Holdings earnings going forward as the consolidation will be reduced as it will now be an associate. We estimate that the impact in the current financial year will be about 10% from 32% last year. Within Aflife Zambia there were assets – notably property and cash - that were not affected by the regulatory requirements. A new company, Quantam was formed to

deal with those assets. Bifm has a 70% shareholding in Quantam with Menell holding the remaining shares. Aflife Zambia's property and cash assets are being transferred to the new company. Property investment is a key aspect of Bifm's overall strategy and Quantum is well placed to take advantage of the many opportunities we have identified for property development in Zambia.

Khumo Property Asset Management - KhumoPAM, a Bifm-Eris Properties joint venture, had a satisfactory year under difficult circumstances. The company will, however, be negatively affected by a Turnstar Holdings decision to take the management of its property portfolio in-house. Turnstar was one of KhumoPAM's major clients. This decision had no effect on earnings for the review period but could impact negatively on results in the current financial year. However, it is not all doom and gloom. Although the Turnstar decision is a blow for KhumoPAM, this has been cushioned by the company's retention of other key clients, including the Debswana Pension Fund and the Bifm property portfolio.

KhumoPAM is also in the process of being restructured to take advantage of new opportunities. There are, for example, several developments in the pipeline in which Bifm will be both developer and shareholder and Khumo is expected to play an important part in this.

Bifm Capital - Bifm Capital had a good year and fulfilled expectations. The company has been successfully running the Botswana Life Annuity Fund and has provided much support to other group entities.

KYS Investments - As a shareholder in Gaborone Sun, KYS turned in good results despite the challenges resulting from the depressed economic environment and the fact that anticipated spin-off from the FIFA Soccer World Cup hosted by South Africa failed to materialise.

Looking Ahead

Given that the last quarter of 2010 was a particularly strong one for global equities, one would have thought that the "all clear" had been given on the macroeconomic front. However, this is far from the case and the market in 2011 still won't be as buoyant as we would like it to be. We have therefore been positioning ourselves to deal with turbulent market conditions going forward and we have adjusted our investment strategy in line with this.

We are optimistic that we can provide some real returns out of the equity funds for 2011 while the rest of the asset classes will take their cue from equities. Our strategy in the current year is around innovation. We have had good products that have worked well for us in the past. We will be reviewing our product offering to ensure that we continue to meet customer expectations.

Meanwhile team development is being enhanced under the leadership of our new Chief Investment Officer, Steve Mills, who has been seconded from Sanlam. This, combined with the introduction of our new, enhanced back office system, should translate into the delivery of an ever more professional service to our clients as we move ahead.

Thanks

The Bifm team has had to deal with considerable upheaval and uncertainty in the past year with a total change in the leadership of the company. They have dealt with all these challenges with aplomb. I would like to thank each and every one of them for their loyalty to the company and support they have shown me following my appointment as CEO.

I also thank our clients for standing with us through the challenges we faced - not just the changes in leadership but also those wrought by the turbulent market conditions. My thanks also go to the Board for their unwavering confidence in the company and for providing us with the support we require to take the company to new levels.

Tiny Kgatlwane
Bifm Chief Executive Officer

Bifm

Gaborone gets a new landmark

Airport Junction Shopping Centre

THIS IS A P460 MILLION Development by Botswana Insurance Fund Management (Bifm) and its partner Eris Property Group, with Khumo Property Asset Management responsible for leasing, tenant coordination and management. In November 2010, construction commenced on this phased 50,000 square metre regional shopping centre, located in the establishing suburb of Block 10 at the A1 and Airport Road junction.

With retail in Gaborone somewhat divided into different pockets mainly due to natural and man-made barriers, there is Game City in the southern part of Gaborone while Riverwalk is set to the east. No regional offer exists to the north of Gaborone. The site for Airport Junction Shopping Centre is therefore strategically located along the most prominent A1 road to intercept traffic in northern Gaborone, especially from the upper income suburb of Phakalane and others.

Gaborone has mainly two types of markets from a retail perspective, one being the affluent middle to upper income households that use private transport, and the other being the lower income families that are dependent on public transport. Airport junction will target mostly the middle to upper income households, ranging between Living Standard Measurement (LSM) 5 and 10. While the immediate surrounding areas can be classified as LSM 6, Phakalane is classified 8 to 10. The centre will open for trading on 28th April 2012 although Builders Warehouse and KFC will trade from August 2011.

The Brief

The initial brief was for a Lifestyle design open to the parking area with two food anchors, value and food related tenants to a maximum of 18000 square metres. Due to the demand from retailers who also wanted to be represented in the centre the design changed to a fully enclosed mall to incorporate among others fashion, hotel, banks, food outlets, groceries, furniture and pharmacy stores. The complete centre will at the end comprise approximately 50,000 sqm. of gross lettable area, making it one of the top three centres in Gaborone.

The Architecture and Design

The architecture used is modernistic design with a contemporary flavour that enhances the entrances and all public areas such as walkways and malls. The centre is designed with all fashion traders in the inside and the value and restaurants outside and to the entrances which are more visible to patrons. Modern to the trend finishes will be used to create a feeling of class and generally enhance the shopping experience.

The centre will benefit from natural lighting and ventilation, although totally covered and protected from the elements. External walkways are created along the outside shops to provide the same protection. A play area with a water feature is centralised

at the main restaurant area and will cater for children's activities. This is done in an organic / free form design which will provide a safe playing experience to the children. This play area forms a focal point from the main vehicle entrance and is defined with a paved walkway leading to it right through the car park.

The car park is spread around the four entrances of the centre allowing for shorter walking distances. Ample paraplegic and motor cycle parking is provided at all major entrances. Landscaping is used to soften the car park and to break the hard tarmac as well as define parking and drive way areas. The delivery areas will be completely enclosed via a 1.8 metre high boundary wall and will not be visible to the public. Similarly, all services will be concealed and enclosed in plant rooms.

Tenant Mix

The tenant mix at the centre will include among others the following;

- Spar
- Shoprite
- Edcon
- Kitchen Shop
- Spur
- Bubbles
- Piatto
- KFC
- House & Home
- Dischem
- Clicks
- Foschini Group (Foschini, @Home, American Swiss, Markham & Total Sports)
- Truworths Group
- Pepcor Group
- Builders Warehouse (As part of the Massmart expansion programme into Africa, Builders Warehouse will occupy a dedicated 6000 m2 building on site and will open for trading in August 2011)
- Town Lodge

The Professional Team

The professional team is largely well known to Bifm and Eris and has successfully performed for the developers on past retail and commercial projects in Botswana and elsewhere and include;

Architect: Frans farmer Arcitects (SA) and Arctez (Botswana)
Quantity Surveyor: MLC (Botswana)
Civil/Structural Engineering: ADA Consulting (Botswana)
Project Management: C-Pro (SA) and Shilo Consultants (Botswana)
Electrical Engineering: Quad Africa (SA) and A.R Edwards (Botswana)
Mechanical Engineering: WIN Consultant (SA) and A.R. Edwards (Botswana)

Strength

Our strength is our commitment to our clients that we'll be there for them when they need us. As a financial services company, our financial might is a valuable indicator of our dependability – both today and tomorrow. With the quality of our assets, our embedded value, the vision and ability of our management team and our efficiency in running our business, clients can be certain that our products will help them plan and protect their future. Our two large and long established subsidiaries, Botswana Life and Bifm hold dominant positions in their respective sectors. We expect them to continue delivering growth and value to shareholders. This is one of the many reasons why many Batswana have chosen our company for their financial services needs.

Corporate Governance

Statement of Compliance

THE BOARD RECOGNISES THE RESPONSIBILITY OF BIHL to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby safeguarding the interests of all its stakeholders. The Board also appreciates that practising good corporate governance is a component of equity risk and acknowledges the relationship between governance and risk management practices, equity performance and corporate profitability. Sound governance principles remain one of the top priorities demonstrated by the Board and BIHL's executive management. The BIHL Board of Directors is committed to and fully endorses the principles of Corporate Practices and Conduct as recommended in the second King Report on Corporate Governance (King II). It will continue to be committed to pursue the high standards of corporate governance and global best practice as recommended by the subsequent King Report (King III), effective for financial years commencing after 1 March 2010.

CORPORATE GOVERNANCE

Aligning our governance with **King III Report**

During 2009, the King Committee released its much-anticipated King III Report on Corporate Governance, which came into effect on 1 March 2010. The broader scope of King III requires renewed and expanded effort to implement leading-edge governance practices. From a sustainability perspective, the new codes are particularly pertinent because the opening chapter of the superseded King II, namely "Boards and Directors", has now been replaced by "Ethical Leadership and Corporate Citizenship".

THIS HIGHLIGHTS THE EMPHASIS THAT THE King Committee places on sustainability as one of the new corporate governance watchwords. BIHL conducted a thorough review of King III and a gap analysis to identify what specific actions we need to take to implement the King III recommendations.

BIHL is aiming for full King III compliance, despite the fact that the recommendations are aspirational and advisory, not mandatory. We recognise that applying the recommendations to all entities within the Sanlam Group will demand tremendous amounts of time, effort and resources, but this is a necessary investment to entrench good governance as a firm principle within the Group. From a sustainability perspective, some of the re-alignments and material changes we have committed to or have already implemented include the following:

> All Board and Committee Charters are being reviewed and re-drafted to align them with King III, as will the existing Governance Framework.

> The Board will arrange its Agenda to give due attention to the broader business concerns of governance and sustainability.

> The responsibility of the Audit Committee will extend to sustainability reporting in order to deliver the required Integrated Annual Report.

> BIHL's Group Ethics Committee, currently a Group Exco sub-committee, will become a sub-committee of its Audit or Sustainability Committee, ensuring regular reporting so that the Board can actively monitor ethical issues.

> The Board will ensure that an ethical risk and opportunity profile is compiled; assess the company's ethical performance; as well as report and disclose findings to internal and external stakeholders.

> A Code of Good Practice for Institutional Investors will be drafted to inform and guide all role players in the investment chain.

Corporate Governance (continued)

- The Board Chairman will be elected annually.
- At least one-third of BIHL's non-executive directors retire by rotation at the company's AGM.
- All companies will ensure that all entities in their groups have both an audit and a remuneration committee.
- Share-based and incentive schemes are approved by BIHL shareholders at the AGM.
- A formal evaluation process of the external auditor will be implemented, as well as formal evaluation processes of internal audit and external assurance providers.
- BIHL has established a Compliance Office to ensure a dedicated Compliance focus, although possibly not as sufficiently independent as recommended by King III.
- BIHL has already established and implemented almost every requirement of Chapter 4: The Governance of Risk. BIHL's newly established Risk Committee assumes responsibility for the risk management process. CURA risk management software will be fully implemented by end-2011, allowing for comprehensive management of risk-related decisions and planning.
- An internal Control Framework for the BIHL Group is being developed to be approved by the Group Audit Committee in August 2011.
- BIHL has implemented formal communication to the Central Audit Committee on the strategy of BIHL by the various CEOs.
- Once managers have engaged with stakeholders, feedback should be circulated to the Board, with management members presenting their consolidated feedback to the Board at least annually.
- A stakeholder engagement strategy will be developed for the Board.

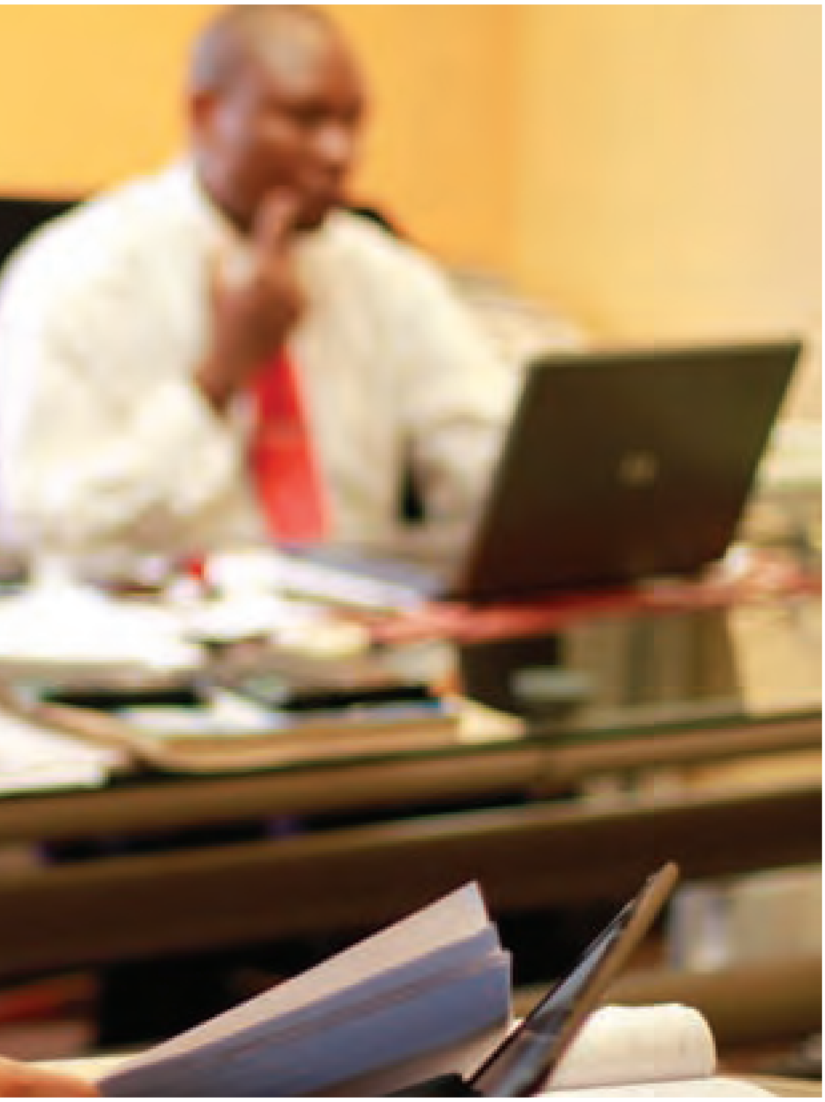
Our review process also identified some risks in fully implementing the King III principles, and we are constructively engaging with these issues:

- The shortage of sufficiently experienced independent directors remains a risk.
- The King III recommendations make the duties of the Audit Committee very onerous, and the risk is that Board members might not be willing or eager to accept appointments to this Committee.

- The skills set of the Audit Committee will need to be reviewed to ascertain whether there is sufficient competence to deliver sustainability reporting at the level required.
- We will need to engage external assistance to assess the accuracy and completeness of the full spectrum of our integrated sustainability reporting, which can be very costly.

Sustainable Performance

In as much as the inherent value of a company can be determined by its marketability, the BIHL Group also believes that long-term viability may be equated to measurable investment in human and other intellectual capital. In recognition of its obligation to contribute to socio-economic goals and general social upliftment, the BIHL Group strives to conduct its business with due regard to environmental concerns, and is committed to developing operating policies that address the potential environmental impacts of its business activities.



Corporate Code of Ethical Conduct

Business ethics and organisational integrity

The Group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. This commitment is confirmed at Board and general management level by their endorsement of the code of ethics for the Group. The human resources department monitors compliance with the principles underlying the code of ethics and investigates all matters brought to its attention. In terms of BIHL's code of ethics, no director or employee within the Group may offer or receive any gift, favour or benefit that may be regarded as an attempt to exert influence or unduly favour any party. BIHL has a formal Group gift/gratuity policy that requires the official declaration and recording of all corporate gifts received or made by any Group director or employee.

Board's Governance and Structure

The Group is governed by a unitary Board of Directors which may not, in terms of its articles of association, comprise fewer than three nor more than 11 members. The Board is assisted in fulfilling its responsibilities by the following Sub-Committees:

> Audit and Risk Committee
> Human Resources Committee
> Investment Committee
> Nominations Committee
> Independent Review Committee

Corporate governance in the Group is managed and monitored by the Board in conjunction with the above Sub-Committees. In the review period, the Board was chaired by Mrs Batsho Dambe-Groth, an independent non-executive director. The Board comprises the following:

> Five independent non-executive directors;
> Four non-executive directors;
> One executive director

The roles of the Chairman and Group Executive Officer are separate with clear division of their responsibilities to ensure a balance of power and authority between them. The Chairman has no executive function. She meets regularly with senior executive management to monitor progress and discuss relevant business issues and is available to respond to shareholder queries or issues relating to the Group. Non-executive directors have the opportunity to meet separately without the Group Chief Executive Officer as and when circumstances warrant.

Board Charter

In accordance with the principles of sound corporate governance, the BIHL Board charter, modelled on the charter principles recommended by King III, incorporates the powers of the Board providing a clear division of responsibilities and accountability of the Board members, collectively and individually, to ensure a balance of power and authority. The annual evaluation process to review the effectiveness of the Board, its Committees and individual directors has been entrenched. Copies of the Board charter are available on request.

The charters of the Board Sub-Committees that describe the terms of reference of the Committees, as delegated and approved by the Board, are reviewed at least annually. Copies of the various Sub-Committee charters are also available on request.

Appointment of Directors

The directors are chosen for their business acumen and wide range of skills and experience. The Board gives strategic direction to the company, appoints the Chief Executive Officer and ensures that succession is planned. In appointing directors, emphasis is placed on achieving

Corporate Governance (continued)

the balance of skills, experience, professional and industry knowledge necessary to meet the Group's strategic objectives. The selection and appointment of directors is formal and transparent and a matter for the Board as a whole, assisted by the Nominations Committee. The issue of appropriate training of new and existing directors is consistently reviewed. All directors are subject to an annual performance evaluation. Succession planning is also reviewed regularly.

During the year under review BIHL sought to increase the ratio of Independent directors as compared to non-independent directors. As a result of this exercise, the following appointments and resignations were made;

Appointments

Mr. John Hinchliffe was appointed as a director on 01 June 2010. Mr. Mahube Mpugwa was appointed as a director on 01 June 2010. Mr. Armien Tyer was appointed as a director on 14 July 2010.

Resignations

Mr. Norman Kelly resigned as a director on 31 January 2010. Dr. Keith Jefferis resigned a director on 20 April 2010. Mr. Thomas Schultz resigned as a director on 10 August 2010. Mr. Victor Senye resigned as a director on 19 August 2010.

On appointment, the new directors:

> Hold discussions with the Chairman regarding the Group's expectations of him/her, his potential contribution to the Group and the areas of his/her expertise; and

> The benefit of the induction programme aimed at broadening his/her understanding of the Group as well as the business environment and markets within which the Group operates.

In accordance with the company's articles of association, the term of office for non-executive directors is three years. One-third of the directors retire by rotation annually, with each retiring director eligible for re-election, if available, at the annual general meeting. The non-executive directors do not hold service contracts with the Group and their remuneration is not dependent on their respective performance.

The Board, which comprises a majority of non-executive directors, reviews the status of its members on an ongoing basis.

Board Meetings

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

Feedback from its Committees, as well as a number of key performance indicators, variance reports and industry trends are considered. A summary of meetings held and attended is indicted below:

	BOARD MEETING	AUDIT COMMITTEE	NOMINATIONS COMMITTEE	INVESTMENT COMMITTEE	REMUNERATION COMMITTEE	CREDIT COMMITTEE
A Tyer	3/5	-	-	1/6	-	-
B Dambe-Groth	3/5	-	2/2	-	3/6	-
C Chauhan	5/5	2/4	1/2	-	4/6	-
F Kellerman	5/5	4/4	-	3/5	-	3/3
H Werth	4/5	-	2/2	-	-	-
J Hinchliffe	3/5	2/4		2/5		
K Jefferis	1/5	¾	1/2	5/5	-	3/3
M Dawes	5/5	4/4	1/2	2/5	6/6	2/3
M Mpugwa	3/5	-	-	2/5	-	-
U Corea	5/5	2/5	1/2	-	-	-
T Schultz	3/5	-	1/2	4/5	1/6	-

Board Sub-committees

To assist the Board in discharging its responsibilities, specialised Board Sub-Committees have been established.

Certain functions of the Board are facilitated through the main Sub-Committees, including the Audit and Risk, Investment, Human Resources, Nominations and Independent Review Sub-committees. They are chaired by non-executive directors who report to the Board.

The terms of reference for all Board Committees have been confirmed by the Board. There is a full disclosure from these Committees 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.

Audit and Risk Committee

Members: Mrs. Margaret Dawes (Chairman); Mr. Francois Kellerman; Mr Uttum Corea, Mr. John Hinchliffe and Mr Chandrakant Chauhan as an alternate member to Mr Uttum Corea.

Composition: Two non-executive members and two independent non-executive members.

The Audit and Risk Committee met five times during the year under review.

The Committee has a formal written charter which sets out its responsibilities. The Committee meets at least four times per annum. The internal and external auditors attend these meetings and have unrestricted access to the Chairman of the Committee.

The main responsibilities of this Committee are to assist the Board in discharging its responsibilities under the Companies Act, Insurance Industry Act and common law, with regard to the financial affairs of the Group. In particular, it monitors financial controls, accounting systems and reporting, compliance with legal and statutory requirements, evaluating the management of risk areas and internal control systems, and the effectiveness of external and internal auditors. The Committee also evaluates the Group's exposure and response to significant risks, including sustainability issues.

Investment Committee

Members: Dr. Keith Jefferis (Chairman); Mr Mahube Mpugwa and Mr Armien Tyer

Composition: Two independent directors and one non-executive director.

The Board recognised the need to co-ordinate the responsibilities of these Committees and have a seamless review and reporting process. The BIHL Investment Committee meets once a quarter.

Due to the unique nature of investment risks for the life and asset management businesses, there are separate management Committees for Botswana Life and Bifm.

The Bifm Investment Management Committee meets on a monthly basis, while Botswana Life's meets at least once per quarter. The Credit Committee meets on an ad hoc basis to review, assess, approve and monitor specific counterpart credit risk as well as to manage the credit risk inherent in the portfolios on an on-going basis The Committees are responsible for formulating investment strategy and monitoring the performance of asset managers. In addition, the Committees review the matching of assets against policyholder liabilities and shareholder investment. The Committees also ensure compliance with investment mandates set for each of the asset portfolios managed by each asset manager and setting policy for and monitoring credit and concentration risk in the portfolios.

Human Resources Committee

Members: Mrs Batsho Dambe-Groth (Chairman),
Mrs Margaret Dawes; Mr Armien Tyer.
Composition: One independent director and two non-executive directors.

The Committee is responsible for monitoring and advising on the status of the Group's human intellectual capital and the transformation processes regarding employees. In particular, the Committee approves executive appointments and reviews succession planning. The Committee is also responsible for the remuneration strategy within the Group, and approval of guidelines for incentive schemes and the annual determination of remuneration packages for BIHL's executive Committee. The Committee takes cognisance of local and international industry benchmarks, ensures that incentive schemes are aligned with good business practice and that excellent performance is rewarded. It also makes recommendations to the Board regarding directors' remuneration. The Chief Executive Officer and Head of Human Resources attend the meetings by invitation.

Non-executive directors do not participate in an incentive bonus nor do they receive share options. The Committee meets at least once a quarter.

Nominations Committee

Members: Mr. Uttum Corea (Chairman); Mr. Heinie Werth; Mrs. Batsho Dambe- Groth
Composition: Two independent non-executive directors and one non-executive director.

Corporate Governance (continued)

The procedure for the appointment of new directors is formal and transparent, and a matter for the Board as a whole. The Committee's responsibility is to make recommendations to the Board on the appointment of new directors, including recommendations on the general composition of the Board. The appointments are subject to shareholder confirmation at the following annual general meeting. The Committee meets as and when appropriate.

Independent Review Committee

Members: Mr. Chandrakant Chauhan (Chairman); Mr Uttum Corea; Mrs Dambe-Groth.
Composition: Three independent directors.

In order to enhance the governance structures, the Board constituted an Independent Review Committee. The Committee is responsible for reviewing all related party transactions. The Committee meets as and when appropriate.

Ad hoc Board Committees

The Board has the right from time to time to appoint and authorise special ad hoc Board Committees to perform specific tasks. The Board determines the terms of reference of such Committees. The appropriate Board members make up these Committees.

Remuneration Philosophy

Responsibility for the remuneration strategy of the Group resides with the Human Resources Committee which also approves mandates for incentive schemes within the Group and determines the remuneration of executive committee members, relative to local and international benchmarks. It also makes recommendations to the Board regarding the remuneration of the directors.

The Board is convinced that appropriate remuneration for executive directors is inextricably linked to the development and retention of top-level talent and intellectual capital within the Group.

Employee remuneration

The following principles are used to determine appropriate remuneration levels:

> All remuneration principles are structured to provide clear differentiation between individuals with regard to performance;

> A clear and meaningful distinction is made between high performers, average performers and underperformers, with remuneration reflecting these gradients;

> Strong incentives are created for superior performance by individuals and teams;

"Directors are required to inform the Board timeously of conflicts or potential conflicts of interest that may exist in relation to particular items of BIHL business. Directors are required to disclose their shareholding in BIHL, their other directorships, and their interests in contracts that the Group may conclude, at least annually and as and when changes occur."

> Top contributors are rewarded significantly higher performance bonuses; and

> Underperformers are not rewarded and active steps are taken to encourage the individual either to improve performance or leave the Group, in line with accepted practices.

Executive directors

The package for the executive director includes a basic salary, a variable performance-linked payment and an allocation of share options. All of these are established in terms of the determined remuneration principles. In line with the Group's remuneration philosophy, remuneration is reviewed annually by the Human Resources Committee after evaluating the executive director's performance.

Non-executive directors

Fee structures are recommended to the Board by the Human Resources Committee and 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 the company's shareholders for their approval at the annual general meeting. Non-executive directors receive an annual fee for their services. In addition, a fee is paid for attending and contributing to Board meetings. The Group pays for all travelling and accommodation expenses in respect of Board meetings.

Disclosure of individual directors' emoluments is detailed below:

	ANNUAL RETAINER	BOARD MEETING	AUDIT AND RISK COMMITTEE	INVESTMENT COMMITTEE	HUMAN RESOURCES COMMITTEE	CREDIT COMMITTEE	NOMINATIONS COMMITTEE	TOTAL
A Tyer **	22,688	30,000	-	-	10,000	20,000	-	82,688
B Dambe-Groth	60,500	45,000	-	-	48,000	-	22,000	175,500
C Chauhan	54,450	45,000	20,000	-	44,000	-	10,000	173,450
F Kellerman**	54,450	50,000	40,000	30,000	-	-	-	174,450
H Werth**	54,450	40,000	-	-	-	-	20,000	114,450
J Hinchliffe	31,763	30,000	20,000	-	-	-	-	81,763
K Jefferis	18,150	10,000	10,000	60,000	-	30,000	10,000	138,150
M Dawes**	54,450	50,000	48,000	20,000	60,000	-	10,000	242,450
M Mpugwa	31, 673	30,000	-	-	20,000	-	10,000	81,673
T Schultz**	31,673	30,000	-	40,000	20,000	-	10,000	131,763
U Corea	54,450	55,000	20,000	-	-	-	12,000	141,450

*** Fees paid for the services of these directors are paid to their respective companies and not to the individuals*

Evaluation of Performance

The directors complete questionnaires on an annual basis to evaluate the effectiveness of the Board and its members. This mechanism is used to ensure that the responsibilities chartered by the Board are complied with, and that adequate attention is paid to matters of both performance and conformance. The results of the exercise 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 also reviewed during individual discussions between each director and the Chairman. The Chairman's performance is, in turn, reviewed by the other directors. The recent evaluations indicate that the directors are satisfied with the effectiveness of the Board's performance and that of its individual members.

Conflict of Interest

Directors are required to inform the Board timeously of conflicts or potential conflicts of interest that may exist in relation to particular items of BIHL business. Directors are obliged to recuse themselves from discussions of matters in which they may have a conflicting interest, unless resolved otherwise by the remaining members of the Board. Directors are required to disclose their shareholding in BIHL, their other directorships, and their interests in contracts that the Group may conclude, at least annually and as and when changes occur. The members of the Board have declared their interests and are free from any business or other relationship which could reasonably be said to interfere with the exercise of their judgement. All directors are required to consult with and obtain the consent of the Chairman with regard to appointments to the Boards of other companies.

Dealings in Botswana Stock Exchange (BSE) Securities

BIHL complies with the BSE requirements in respect of the share dealings of its directors. In terms of BIHL's closed period policy, all directors and staff are precluded from dealing in BIHL securities from 1 January and 1 July, until the release of the Group's final and interim results. The same arrangements apply for closed periods during other price-sensitive transactions (e.g. during a period covered by a cautionary announcement). No such closed periods were declared during the review period. A pre-approval policy and process for all dealings in BIHL securities by directors and selected key employees are strictly followed. Even more stringent trading policies regarding personal transactions in all financial instruments are enforced at BIHL's investment management companies. A summary of directors' dealings is listed on page 184 of this annual report.

Advice

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

Statutory Actuary

Mr. Giles Waugh is an independent statutory actuary who is not in the employ of the Group. He is responsible for assisting the Board in all actuarial matters and conducts the actuarial valuation of the Group. He is also responsible for all regulatory reporting to the Registrar of Insurance and for safeguarding the interests of policyholders. The statutory actuary attends the interim and year-end Board meetings as well as the Audit and Risk Committee meetings. The report of the statutory actuary is set out on page 125.

Corporate Governance (continued)

Communication with Stakeholders

The Group is committed to a policy of effective communication and engagement with its stakeholders on issues of mutual interest. These include statutory, regulatory and other directives regulating the dissemination of information by the company and its directors and officers. Communications also include the rationale behind major new business developments. Financial results presentations were made to financial analysts on 1 March 2011 in the review period. In addition, personal meetings with analysts and fund managers/trustees were arranged when appropriate. The Group published its interim and annual results in the media on 23 August 2010 and 28 February 2011 in addition to mailing its annual report to all shareholders. Each item of special business included in the notice of the annual general meeting was accompanied by a full explanation of the implications of the proposed resolution.

In the course of the annual general meeting, as at other shareholder meetings, the chairperson provides reasonable time for discussion. Shareholders are always encouraged to attend the annual general meeting.

Forensics

The Group recognises that financial crime and unlawful conduct conflict with the principles of ethical behaviour, as set out in the code of ethics, and undermine 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 to these matters and all offenders are prosecuted. A Group Forensic Services function at the Sanlam Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that may have an impact on the Group.

Group Forensic Services are also responsible for the formulation of Group standards in respect of the combating of unlawful conduct and the implementation of measures to ensure compliance with these standards.

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 compliance function, together with the compliance functions of the business divisions and units, facilitates the management of compliance through the analysing of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Strategic Risk Management

In acknowledging its responsibility for strategic risk management (SRM) within the Group, the Board has tasked the Audit and Risk Committee to ensure that SRM responsibilities are fulfilled. A major function of the Committee is, therefore, to analyse and report back to the Board on the status of various risks and risk management.

Considered an integral part of the decision-making process in the Group, the primary objective of the Group's SRM programme is to optimise the Group's risk-adjusted return on capital and embedded value. To ensure an optimal return, the Group 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, and not necessarily avoid or eliminate every risk, but to ensure that the overall risk profile remains acceptable. This may involve various risk responses or a combination 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. These processes have been in place during the period under review, and cover all material activities of the Group.

"Employment and localisation remain a high priority business imperative. Both Group businesses have implemented their respective plans for the period to 31 December 2010. These plans are reviewed annually to ensure they remain aligned with business objectives and industry needs."

The Group recognizes that financial crime and unlawful conduct conflict with the principles of ethical behaviour. In an effort to ensure compliance with these standards BIHL has to implement measures for the effectiveness, efficiency, confidentiality, integrity, availability, compliance and reliability of its information and information-based services.

Corporate Governance (continued)

The SRM policy is regularly reviewed and updated where necessary, evaluating risk as a combination of impact and likelihood. Amendments to SRM policy require Board approval. The assessment of the various risks in the Group is evaluated on both a quantitative and qualitative basis. Risks characterised by a low likelihood of occurrence but with a potentially catastrophic impact, are regarded as unacceptable and are consciously avoided as far as practically possible. The SRM policy sets out the minimum standard of risk management that BIHL's businesses have to adopt and adhere to.

Rigorous policies, procedures and methodologies have been adopted and implemented throughout the Group, enabling the effective identification and management of risks. All processes and procedures have been designed to provide reasonable assurance that risks are adequately managed. A detailed risk report is included on page 100 of the annual report.

Employment Equity and Localisation

Employment and localisation remain a high priority business imperative. Both Group businesses have implemented their respective plans for the period to 31 December 2010. These plans are reviewed annually to ensure they remain aligned with business objectives and industry needs.

Financial Reporting

The standards of BIHL financial reporting are prepared in accordance with International Financial Reporting Standards and the Botswana Companies Act.

Internal Audit

The Group's internal audit function is co-ordinated at Sanlam Group level by the Audit executive of Sanlam Limited. An internal audit charter, approved by the BIHL Board, governs internal audit activity within the Group. Regular risk-focused reviews of internal control and risk management systems are carried out. The Chief Audit executive of Sanlam Limited is appointed in consultation with the Chairman of the Sanlam Audit and Risk Committee and has unlimited access to the Chairman of the BIHL Audit and Risk Committee. The authority, resources, scope of work and effectiveness of these functions are reviewed regularly.

External Audit

The external auditors provide an independent assessment of BIHL's systems of internal financial control and express 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. 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. Close co-operation between the internal and external auditors ensures appropriate combined audit and minimisation of duplicated effort.

"Employment and localisation remain a high priority business imperative. Both Group businesses have implemented their respective plans for the period to 31 December 2010. These plans are reviewed annually to ensure they remain aligned with business objectives and industry needs."

Company Secretary and Professional Advice

The Company Secretary appointed by the Board is Mrs. Rorisang Modikana. All directors have unlimited access to the advice and services of the Company Secretary, who is accountable to the Board for ensuring that prescribed procedures are complied with and that sound corporate governance and ethical principles are adhered to. Individual directors are entitled to seek independent professional advice concerning the discharge of their responsibilities at BIHL's expense.

Approval of Annual Financial Statements

The financial statements of the Group were reviewed by the Audit and Risk Committee, approved by the Board and were signed on behalf of the Group by the Chairman and the Group Chief Executive Officer.

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 2011 financial year. Their statement in this regard is also contained in the statement of directors' responsibility for annual financial statements.

Corporate Governance (continued)

The code of Corporate Governance: Compliance Statement

In an attempt to improve its corporate governance principles and to enhance the Board's accountability, the Group has voluntarily decided to subject itself to the highest level of corporate governance and best practice. The statement below, which is based on the code published by the Financial Reporting Council of the United Kingdom, measures the degree of its compliance to the respective codes. The Group has complied with the Codes of Best Practice throughout the financial year ended 31 December 2010, other than with exceptions noted below.

A	BOARD MEMBERS AND ACCOUNTABILITY	
A.1	**The Board**	**Complied**
	Every company should be headed by an effective board, which is collectively responsible for the success of the company.	The Group is governed by a unitary Board. The Board sets the strategic direction and approves matters relating to senior management changes, staff remuneration policies, business plans, annual budgets, etc.
A.2	**Chairman and Chief Executive Officer**	**Complied**
	There should be a clear division of responsibilities at the head of the company between the running of the Board and executive responsibility for the running of the business. No one individual should have unfettered powers of decision.	There is a clear separation of duties and responsibilities of the Chairman and the Chief Executive Officer. The Chairman does not have executive powers except to direct the Board on its decisions. The division of power is set out in the Board Charter.
A.3	**Board balance and independence**	**Partially Complied**
	The Board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision making.	Five directors are independent. Of the other five directors, one is an executive director and four are non - executive directors. The board is of sufficient size and the balance of skills and experience is appropriate for the requirements of the business. Board balance can also be interpreted to mean balance of capabilities. The non-executive members of the Board contribute a wide range of skills and experience, forming a strong and independent element within the Board. The non-executive members of the Board receive a sitting allowance for services rendered and have served for less than eight years. The four non-executive directors are employed by Sanlam. The executive director has been in the employ of the Group for more than five years.

A.4	**Appointment to the Board**	**Complied**
	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	There is a Nomination Committee in place to lead the process of appointment of members of the Board. Appointments to the Board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time available to devote to the job. The members of the nomination committee are independent non-executive directors and the Committee is chaired by an independent non-executive director.
A.5	**Information and professional development**	**Complied**
	The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.	The Board ensures that a new member is properly inducted and the members obtain sufficient professional advice from both internal and external sources. The Board meets at least quarterly to consider matters put before it. All matters discussed at the Board meetings are supported by written and/or oral presentations to enable members to make informed decisions. The Board has been inducted at various times. The Board's Secretary is responsible for ensuring that its procedures are followed.
A.6	**Performance Evaluation**	**Partially Complied.**
	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	The executive director is set targets against which her performance is evaluated annually. The Board also evaluates its own performance annually. Each director completes an evaluation form and the chairman takes the lead in providing feedback to the Board. No evaluation is performed on the individual directors or the chairman.
A.7	**Re- election**	**Complied**
	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the board.	All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of three years. Non-executive directors are appointed for specified terms subject to re-election and to the Companies Act's provisions relating to the removal of a director.

Corporate Governance (continued)

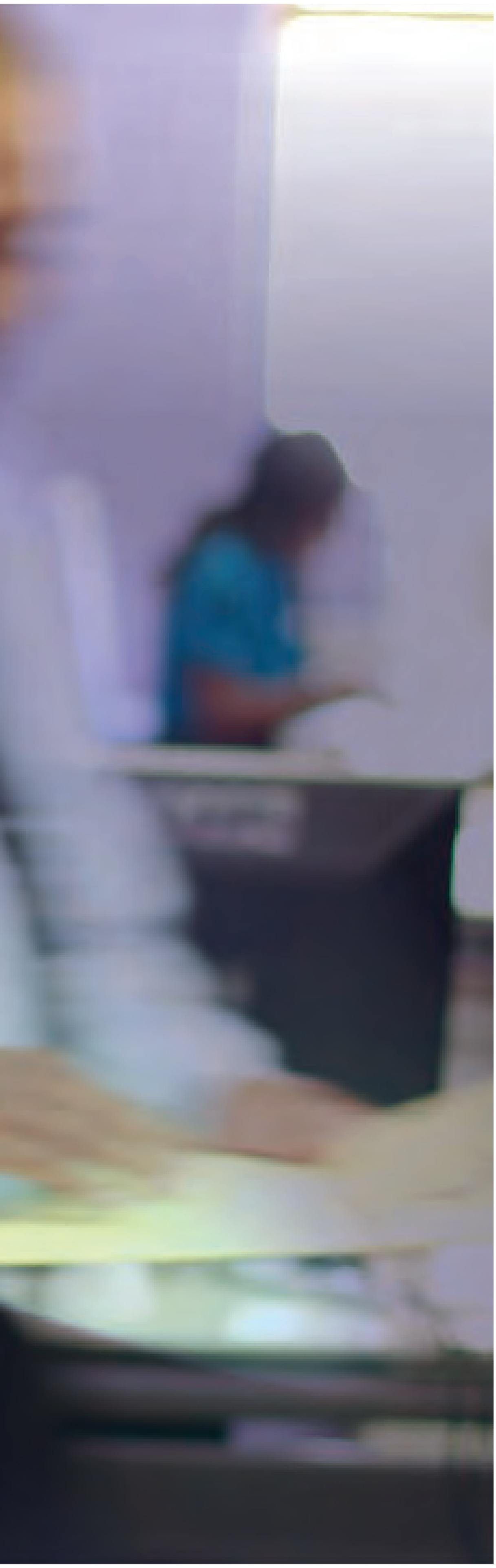
The code of Corporate Governance: Compliance Statement (continued)

B	**THE LEVEL AND MAKE-UP OF REMUNERATION - BOARD MEMBERS AND SENIOR EXECUTIVES**	
B.1	**Remuneration policy**	**Complied**
	Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	The executive director, who is a member of the Board, is entitled to remuneration paid on a monthly basis. Her package includes a basic salary, a variable performance-linked payment and an allocation of share options All other members of the Board receive a sitting allowance and an annual retainer fee in line with market-related rates.
B.2	**Procedure**	**Complied**
	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	The rewards and remuneration of the executive director and senior executives are established in terms of the determined remuneration principles. In line with the Group's remuneration philosophy, remuneration is reviewed annually by the Human Resources Committee after evaluating the executive director's performance. Fee structures for the non-executive directors are recommended to the Board by the Human Resources Committee and reviewed annually with the assistance of external service providers.
C	**ACCOUNTABILITY AND AUDIT**	
C.1	**Financial reporting**	**Complied**
	The Board should present a balanced and understandable assessment of the company's position and prospects.	BIHL complies with all applicable International Financial Reporting Standards, the Insurance Industry Act and the Company's Act of Botswana and other relevant legislation. The directors explain in the annual report their responsibility for preparing the accounts and there is a statement by the auditors about their reporting responsibilities. The directors also report whether the business is a going concern, with supporting assumptions or qualifications as necessary.
C.2	**Internal control**	**Complied**
	The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.	The Board through the Audit and Risk Committee ensures that the internal controls and risk management practices are aimed at safeguarding its assets and resources.

C.3	**Audit committee and auditors**	**Complied**
	The Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.	The Board through the Audit and Risk Committee ensures that basic internal controls principles which culminate in good financial reporting are adhered to. The Audit and Risk Committee monitors and reviews the effectiveness of the internal audit activities. The Audit and Risk Committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.

D	RELATIONS WITH STAKEHOLDERS	
D.1	**Dialogue with institutional shareholders**	**Complied**
	There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	There is always satisfactory dialogue between the Group and its shareholders. Financial results presentations are made to financial analysts. In addition, personal meetings with analysts and fund managers/trustees are arranged when appropriate. The Group publishes its interim and annual results in the media in addition to mailing its annual report to all shareholders. Each item of special business included in the notice of the annual general meeting is accompanied by a full explanation of the implications of the proposed resolution.
D.2	**Constructive use of AGM**	**Complied**
	The Board should use the AGM to communicate with investors and to encourage their participation.	At the general meeting, the Group proposes a separate resolution on each substantially separate issue, and in particular proposes a resolution at the AGM relating to the report and accounts. For each resolution, proxy appointment forms provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The Group ensures that all valid proxy appointments received for general meetings are properly recorded and counted. The chairmen of the Audit, Remuneration and Nomination Committees attend the AGM to answer questions. A Notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting.

BIHL Group **Reports**



The BIHL Group reports explain the meaning of corporate responsibility, giving a vision of our work and how we tackle risk, audit of the skills required going forward, future projections of our business and its impact on the society.


14/04/2010
MAP OVC BURSARY FUND
BIHL Trust

CORPORATE SOCIAL INVESTMENT

Improving the quality of **life in the community**

Since its establishment more than 30 years ago, BIHL has considered itself an intrinsic part of the Botswana economy – and the Botswana community. As such, the Group – through its subsidiaries - has long contributed in an informal way to local charities and deserving causes.

HOWEVER, THIS APPROACH WAS rather arbitrary. The Group over time recognised that for it to be effective, corporate social investment had to be a more strategic activity, linking business strategy, industry sector, core competencies and stakeholder dialogue. This would also contribute towards increased accountability regarding the Group's CSI contributions.

In order to achieve this and to formalise the Group's strategy towards improving the quality of life of rural and urban communities in Botswana, the BIHL Trust was established.

The Trust's main objective is to empower the community by funding projects that benefit the disadvantaged members of our society. In addition, it seeks to promote the participation of Batswana in national and international sporting and cultural events; and will also contribute towards the protection and conservation of Botswana's natural environment.

In line with its commitment towards increased accountability in its CSI endeavours, the Trust devoted considerable attention to evaluating projects and requests for assistance. The Trust has also made a concerted effort to involve BIHL personnel who work in our Botswana Life branches around the country in the identification of projects that are relevant to the communities in which we operate. We are proud of the fact that in some respects, our CSI initiatives have been at the forefront of CSI developments in this country such as building houses for the poor an initiative which complements His Excellency Lieutenant General Seretse Khama Ian Khama, The President of Botswana's efforts regarding housing the underprivileged.

Three such projects consisting of basic two-and-a-half bedroom houses with indoor toilets, bathrooms and kitchens, have been launched in different parts of the country: Molepolole; Artesia in the Kgatleng District; and Masingwaneng in the north eastern region.

Other key projects in which the BIHL Trust was involved during 2010 include:

> **Thuso Rehabilitation Centre in Maun.** This centre does an incredible job in rehabilitating individuals with disabilities. Their aim is to contribute towards the independence of as many of their clients as possible by empowering them to fend for themselves. Transport to and from the Centre however, is a major challenge for these individuals. In order to assist in this regard, BIHL Trust has donated an appropriately equipped minibus to the Centre.

> **Bana Ba Metsi School.** Situated in a remote spot in the north western part of the country, this school's work

Corporate Social Investment (continued)

"The Trust continued to seek worthy projects to support in terms of its mandate to alleviate poverty, like this project which involved the construction of a house for a destitute woman in the Kweneng District."

in rehabilitating young boys from as far afield as Maun, Francistown and Gaborone, is highly commendable. The group comprises of boys who had dropped out of the formal education system. Many had become involved in unsavoury activities ranging from petty theft to substance abuse.

The school, founded by a teacher who emigrated to Botswana from the United States more than 20 years ago, gives the youngsters a second chance at a productive, useful life. They are reintroduced to formal primary education and also given life skills training that will enable them to be reintegrated into their communities and allow them to complete their junior secondary education in a mainstream school.

BIHL Trust has pledged P250, 000 to Bana Ba Metsi School for electrification of the facility, the establishment of a computer centre and an indoor kitchen. The boys will construct the new buildings themselves – a way for them to develop marketable skills.

> **Thapong Centre for the Arts.** In a new and ambitious development programme, artists based at the Centre will scour the country searching for young artists with a raw talent that can be nurtured. These young artists will then be mentored and put through development workshops at which they will be shown how to hone their craft. BIHL Trust is supporting this initiative to the tune of P94,000.

During the review period, the BIHL Trust also continued its support of:

> **Maru-a-Pula School's AIDS Orphan and Vulnerable Children (OVC) Bursary Fund**. This is an innovative project that provides financial aid to talented but underprivileged and orphaned children, enabling them to obtain a first class education at one of the country's top schools. Several of these children go on to win full scholarships to top universities, including Ivy League Colleges such as Stanford, Yale and MIT in the United States. We are proud to be associated with an initiative of this nature, which empowers and develops vulnerable children simply by giving them an opportunity to achieve their full potential.

> **The Gamodubu Child Care Trust:** Funds from BIHL were made available during the review period to construct a steel shelter from where a local woman, Shirley Madikwe, runs a feeding scheme for destitute children. The project, based on the outskirts of Gaborone, is becoming more sustainable following the commissioning of equipment used to mould bricks and bake bread. These products are sold to generate income for the project.

Human Resources Review

A Culture of High Performance and Delivery

The Human Resource (HR) strategy and direction continues to drive and sustain a high performance culture, one of the Group strategic focus areas. The Group HR strategy is directed and closely monitored by the HR Committee, a sub-committee of the BIHL Board. The Committee, through its charter, sets the broad strategic areas of remuneration and incentives for the Group, cost effectiveness of organisation structures, recruitment of CEOs and executive management, and succession management.

A MAJOR PROJECT IN 2010 was the integration of Legal Guard (LG) into the BIHL Group. This was a complex and sensitive exercise. An extensive consultative process was employed by all key stakeholders to ensure employees were aware of the acquisition and its implications. This included transfer of staff pensions from Letshego into BIHL Pension Fund, conversion of pay structure to guaranteed package, implementation of performance management system, training management and the smooth transition of LG employees into the BIHL family of businesses.

BIHL has continued implementation of the succession and localisation plan to ensure that there are successors to key roles within the group.

This has remained a strategic focus area and one that the HR Committee is keenly monitoring.

A positive result of this strategy has been the appointment of about 80 percent of group executive management from within the Group, including, for example, the Botswana Life CEO, as well as some positions within Bifm.

However, the change in the Group structure has greatly affected subsidiary and support functional structures, resulting in a necessary review of the succession plan.

With the restructuring of the Group, there was need for rationalisation and subsequent procurement of office space.

Continued training and development remains a Group focus area. The primary focus has always been on closing competency and performance gaps. Training is also targeted at localisation efforts to ensure skills transfer to citizen counterparts in line with the Government's effort to build capacity within the country. The Group has also pursued accreditation of training programmes to ensure quality, relevance to respective industries and compliance with regulation.

Looking ahead

Succession and localisation plans have to be reviewed as a matter of urgency following the Group's restructuring if we are to ensure continued skills development and transfer, internal capacity building and business continuity.

A review of the remuneration strategy has also become vital in the face of increased competition, the ever changing needs of key employees and high performing individuals, and the necessity to strike a balance with Group's ability to compete effectively for human capital. Ultimately, this exercise should support the Group in attracting and retaining high performing and key talent.

Performance management will also be reviewed, primarily to ensure that performance for all businesses, Group functions and their teams is objectively measured and adequately rewarded.

The Group will also be commencing with the implementation of an HR system to support the expanded roles within the Group functions and the respective subsidiaries. The system will not only automate the current manually driven HR support and services but will also be central to the facilitation of service level agreements between HR and its clients.

BIHL Strategy Review

The BIHL Group Strategy is underpinned by six strong strategic pillars: Better utilisation of Capital for Growth; High Performance Culture; Technology; Diversification of markets and products; Optimising and expanding existing businesses and Strategic enablers across the Group

These dovetail with the BIHL Group vision: *"The collective strength of BIHL will deliver superior returns by enabling our existing businesses and investing in new opportunities."*

ONE
Better utilisation of Capital for Growth - Our strategy is driven by Financial Prudence

The Group is committed to exceeding client expectations in terms of returns. We will continue to invest our client funds and shareholder funds in high return ventures with acceptable risk profiles. Excess capital will be used to drive targeted mergers and acquisitions both locally and internationally.

TWO
High Performance Culture - Our strategy is driven by our People

Through its people, the BIHL Group and its subsidiaries have become a well respected brand in the market. We will continue to grow our brands through continuous development of our people, and through the competitive acquisition of critical business skills locally and internationally.

THREE
Technology - Our Strategy is driven by our customer-centricity

Our customers are becoming increasingly technology savvy. This has resulted in a drive to enhance our service offering through more advanced technology platforms. Our service channels are also being reviewed to enable greater client convenience and exceptional customer service. BIHL has developed and continues to develop systems that are domiciled in and tailored for the markets in which we operate, ensuring more effective customisation and faster turn-around times.

FOUR

Diversification of markets and products - Our strategy is driven by our Superior Products

The future growth of the BIHL Group will be driven by strategic expansions and diversification, in Botswana and regionally. We have significant market share in the current market and the financial strength to explore new growth markets regionally. With excess shareholder capital available, we will invest in strategic expansions and growth opportunities. Our customers have a right to expect optimal returns and innovative services from the Group, hence our continuous drive to explore diversification opportunities. We are also looking to develop diversified revenue streams internally, either through existing businesses or new entities, in order to drive growth.

FIVE

Optimising and expanding existing businesses – Our strength derives from our existing subsidiaries

The BIHL Group has built its reputation over the years mainly through its two subsidiaries, Botswana Insurance Fund Managers (Bifm) and Botswana Life Insurance Limited (BLIL). This is in addition to the reputation that has been built by the BIHL Group, the listed entity on the Botswana Stock Exchange. Our strategy is to strengthen these entities, to sustain them and ensure that they retain their market positions in their respective areas of focus.

SIX

Strategic enablers across the Group - Our strategy is driven by our market partners and clients

The transformation of the BIHL Group structures was to create strategic enablers and synergies across the organisation.

The Group also has very strong partners in terms of its major shareholder, Sanlam, and its associated subsidiaries, who collectively assist BIHL with the technical expertise required to drive our growth and diversification strategies.

The BIHL Group also has key strategic clients through some of our subsidiaries, either directly as customers; indirectly through investment in these entities as a shareholder; or as a provider of some structured financial instruments. We will use these relationships as an extension to grow shareholder value and further ensure that we remain a preferred partner throughout the institutions within the markets that we operate in, including Government, Regulators and private sector investors.

Risk Report

Contents
- *Governance Structure*
- *Group Risk Policies and Guidelines*
- *Risk Types*
- *Risk Management: General Risks*
- *Risk Management by Business Area*
- *Sensitivities*

(i) 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. In respect of separately listed subsidiaries, this is done within the limitations of sound corporate governance practices. Refer to the Corporate Governance Report for further information on the responsibilities of the BIHL Board and their committees.

The Group operates within a decentralised business model environment. In terms of this philosophy, 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.

BIHL Board
Responsible for the Group's risk management strategy and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice

Audit, Actuarial and Risk committee
Assists the Board in fulfilling its responsibilities

Business Executive committees
Responsible as the Board's executive overseer to ensure that the businesses achieve optimal risk-adjusted returns

Risk Management
Develops Group risk management framework, policies and guidelines for approval by the Board, co-ordinates reporting responsibilities and improves risk management across the Group

Business (and sub-business) level risk management
Identifies and manages risks faced by the business

Business level management committees
Additional committees that may be established by a business to assist their Executive committees in certain areas of risk management

Business level Audit, Actuarial and Risk committees/forums
Assists the business level Board in fulfilling its responsibilities to the Board

(ii) Role of Group Risk Management

The role of Group Risk Management is one of setting Group standards and guidelines, co-ordinating and monitoring risk management practices and ultimately reporting to the BIHL Board. Group Risk Management plays an active role with regard to risk management in the BIHL Group.

The involvement includes the following:

- Permanent invitees of business units' Risk and Audit committees;
- Member of the Credit committee (see description below);
- Transactional approval incorporated in approval frameworks of business units where appropriate;
- Involvement and approval of corporate activity transactions;
- Guidance on risk-related matters at a business level; and
- Involvement with specialist risk management issues at business level.

A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table:

A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table.

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: 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
Financial Director: 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	**Investment Committees:** Determines and monitors appropriate investment strategies for policyholder solutions	**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 to monitor the business' entire risk profile		**Internal Audit:** Assists the BIHL Board and management by monitoring the adequacy and effectiveness of risk management in businesses

(ii) Group risk policies, standards and guidelines

The main policies, standards and guidelines are:

- The BIHL Group Enterprise Risk Management (ERM) policy and plan;
- BIHL Group Risk Escalation policy;
- BIHL Group Business Continuity Management policy;
- Definitions of Risk categories standard;
- Risk Appetite guidance note;
- BIHL Audit and Risk committee charter; and
- Group Risk forum terms of reference.

Key:
A policy sets out mandatory minimum standards for all businesses.
A standard endeavours to ensure consistent use of terminology.

A guidance note is aimed at providing information.
The following also cover aspects with linkage to risk management:
- BIHL Group Information and Information Technology (I and IT) Risk Management policy;
- Representations from Group businesses to the BIHL Audit, Actuarial and Finance committees;
- BIHL Corporate Credit Risk strategy and policy;
- BIHL Financial Crime Combating policy;
- BIHL Human Resources policies;
- BIHL Group governance structures; and
- BIHL Audit, Actuarial and Finance committee charter.

BIHL Group Enterprise Risk Management policy

The Group ERM policy includes the following main 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.

Summary of BIHL Group Risk Appetite

- The BIHL Group consists of a number of decentralised businesses. These businesses have different risk profiles and appetites. They are capitalised appropriately based on these risk profiles.

- The Group determines the hurdle rates required from these businesses. These hurdle rates are set out for each business in accordance with its risk profile. On average the BIHL Group aims to yield a return on GEV equal to at least 1% above its cost of capital, being equal to the return on 10-year government bonds plus 4%.
- Each decentralised business needs to operate within the restrictions of its allocated capital. For businesses using Value at Risk (VAR) as measurement, a 99,5% confidence level is required over a one-year time horizon. For businesses using capital adequacy (risk-based capital) techniques, a 95% confidence over a 10-year time horizon is required.

- Each business needs to manage their risks within the Group ERM policy parameters.

Risk Process and Status

The risk assessment process in the individual businesses comprises three distinct phases:
- Detailed identification of risk factors.
- Performance measurement by means of Key Risk Indicators and Key Performance Indicators. These can be measured in terms of financial and non-financial indicators.
- Stress testing and scenario analysis as a forward-looking methodology.

The individual businesses have fully adopted and implemented the ERM policy, the Group Risk Escalation policy and Business Continuity Management policy as part of the individual governance structures.

The other policies are adopted by businesses where appropriate, although in the vast majority of cases this implies full adoption (as determined by business size/Group governance principles and the tight/loose principles).

Risk management has formally been incorporated into the charters of the various Audit and/or Finance committees.

Independent assurance reviews

The Group has developed, with an external assurance provider, a Risk Management Maturity Model to assess the risk management processes across the Group. Annually, all businesses conduct self-assessments against the Maturity

Model. Larger businesses are assessed by an external assurance provider against the Maturity Model at least once every three years. Internal audit conducts assessments on a rolling annual basis and the overall results are presented to the BIHL Audit and Risk committee.

(iii) Risk types

The Group is exposed to the following main risks:

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
General Risks	**Operational**	Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes:	All Group businesses
		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 data.	
		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 will be exposed to contractual obligations which have not been provided for.	
		Compliance risk: the risk of not complying with laws and regulations, as well as investment management mandates.	
		Human resources risk: the risk that the Group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk.	
		Fraud risk: the risk of financial crime and unlawful conduct occurring within the Group.	
		Taxation risk: the risk of financial loss owing 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 GEV; 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 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 inherent in major projects.	
	Reputational	Reputational risk is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand.	All Group businesses
	Strategic	Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.	All Group businesses

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
Financial and Business - specific Risks	**Market**	Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes:	All Group Businesses
		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 a financial instrument will fluctuate as a result of changes in interest rates and the risk that a mismatch loss will be incurred in respect of a matched asset/ liability position following changes in interest rates.	
		Currency risk: the risk that the rand 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.	
		Asset liability mismatching risk: the risk that losses will be incurred as a result of a deviation between asset and liability cash flows, prices or carrying amounts.	
		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 (also known as 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 realise the required profit).	
	Credit	Credit risk is the risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure. Credit risk includes:	Life insurance Short-term insurance
		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: 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.	
		Settlement risk: risk arising from the lag between the transaction and settlement dates of securities transactions.	
		Reinsurance counterparty risk: concentration risk with individual reinsurers, owing to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.	
		Credit spread risk: the sensitivity of financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.	
	Liquidity	Liquidity risk is the risk relating to the difficulty/inability to accessing/ raising funds to meet commitments associated with financial instruments or policy contracts.	Life insurance Short-term insurance

	Risk category (primary)	Risk type (secondary) and description	Potential significant impact
Financial and Business - specific Risks	**Insurance risk (life business)**	**Insurance risk (life business):** risk arising from the underwriting of life insurance contracts, in relation to the perils covered and the processes used in the conduct of business. It includes:	Life insurance
		Underwriting risk: the risk that the actual experience relating to mortality, disability and medical 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 owing to negative lapse, surrender and paid-up experience.	
		Expense risk: the risk of loss owing 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 owing to having written large proportions of business with policyholders of the same/similar risk profile.	
	Insurance risk (short-term insurance business)	**Insurance risk (short-term insurance business):** risk arising 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:	Short-term insurance
		Claims risk: refers to a change in value caused by the ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated.	
		Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty relating to the pricing and provisioning assumptions for extreme or exceptional events.	

Risk management: General risks

These are explained in detail in the annual finacial statements.

Embedded Value Report

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 the 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. Other operations have been taken at net asset value.

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 2010, 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.

2. Embedded Value Results

	12 mths to to 31 Dec 2010 P'000	12 mths to 31 Dec 2009 Restated P'000	12 mths to Dec 2008 Restated P'000
Shareholders' net assets excluding goodwill	1,252,454	1,182,937	1,242,385
Fair value adjustments	614,648	542,457	363,422
	1,867,102	1,725,394	1,605,807
Value of in-force business	539,526	495,703	379,041
Value before cost of capital	656,330	612,209	491,307
Fair value adjustments	(39,850)	(31,817)	(19,358)
Cost of capital	(76,954)	(84,689)	(92,908)
Embedded value	2,406,628	2,221,097	1,984,848
Group required capital	262,896	279,075	275,409
Required capital cover	7.1	6.2	5.80

3. Embedded Value Earnings

The embedded value earnings are derived as follows:

	12 mths to to 31 Dec 2010 P'000	12 mths to 31 Dec 2009 Restated P'000	12 mths to 31 Dec 2008 Restated P'000
Embedded value at the end of the period	2,406,628	2,221,097	1,984,848
Embedded value at beginning of the period	2,221,097	1,984,848	1,781,163
Change in embedded value	185,531	236,249	203,685
Dividends and new capital	216,424	261,396	147,703
Embedded value earnings	401,955	497,645	351,388
These earnings can be analysed as follows:			
Expected return on life business in force	81,699	66,911	52,137
Value of new business	132,346	113,602	98,930
Value at point of sale	124,054	106,637	92,663
Expected return to end of period	8,292	6,965	6,267
Operating experience variances	60,784	70,735	123,193
Mortality/Morbidity	38,794	38,770	50,888
Persistency	(9,096)	6,195	27,460
Expenses	6,057	13,538	6,313
Other	25,029	12,232	38,532
Operating assumption changes	(32,192)	118	(6,139)
Mortality/morbidity	-	17,580	3,400
Persistency	(16,214)	(22,145)	(23,323)
Expenses	(6,962)	(4,182)	13,784
Other	(9,016)	8,865	-
Embedded value earnings from operations	242,637	251,366	268,121
Investment variances	(12,873)	3,157	(31,712)
Economic assumption changes	16,053	13,010	5,346
Interest and Inflation	(301)	8,045	268
Risk discount rate	16,354	4,965	5,078
Growth from life business	245,817	267,533	241,755
Return on shareholders assets	102,478	112,428	18,744
Investment Returns	(9,076)	37,939	(20,057)
Net profit non-life operations	111,554	74,489	38,801
Change in shareholders' fund adjustments	53,660	117,684	90,889
Investment (losses)/surpluses on treasury shares	(10,498)	(48,892)	(47,236)
Movement in present value of holding company expenses	(8,033)	(12,459)	158,827
Movement in fair value of incentive scheme shares	(17,406)	20,908	16,731
Movement in other net worth adjustments	89,597	158,127	(37,433)
Embedded value earnings	401,955	497,645	351,388

Embedded Value Report (continued)

3. Embedded Value Earnings (continued)

	12 mths to to 31 Dec 2010 P'000	12 mths to 31 Dec 31 Dec 2009 Restated P'000	12 mths to 31 Dec 2008 Restated P'000
Fair value adjustments			
Staff share scheme	9,790	27,196	6,288
Non-life operations write-up to fair value	331,486	272,454	228,777
Group holding expenses	(39,850)	(31,817)	(19,358)
Other group operations write-up to fair value	166,355	142,483	27,984
Reversal of cross holding adjustment	107,017	100,324	100,373
Total	574,798	510,640	344,064
Consisting of			
adjustments	614,648	542,457	363,422
Value of in-force business adjustments	(39,850)	(31,817)	(19,358)

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 2010, 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.

Value of new business at end of the period	132,346	113,602	98,930
Value at point of sale after cost of capital	124,054	106,637	92,663
Value at point of sale before cost of capital	138,846	119,942	105,203
Recurring premium	73,023	77,316	68,554
Single premium	65,823	42,626	36,649
Cost of capital at point of sale	(14,792)	(13,305)	(12,540)
Expected return to end of period	8,292	6,965	6,267

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 Botswana Insurance Holdings Limited Group. The sensitivity of the embedded value to the risk discount rate is set out below.

Risk Discount Rate	**12.0%** P'000	**13.0%** P'000	**14.0%** P'000
Shareholder's net assets and fair value adjustments, excluding goodwill	1,867,102	1,867,102	1,867,102
Value of in-force business	575,356	539,526	507,371
Value before cost of capital	682,536	656,330	633,033
Fair value adjustments	(39,850)	(39,850)	(39,850)
Cost of capital	(67,330)	(76,954)	(85,812)
Embedded value	2,442,458	2,406,628	2,374,473
Value of one year's new business at valuation date	133,560	124,054	116,685
Value before cost of capital	145,887	138,846	132,465
Cost of capital	(12,327)	(14,792)	(15,780)

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:

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 (% p.a.) used are as follows:

	31-Dec-10 % p.a	31-Dec-09 % p.a
Risk discount rate	13.00	13.50
Overall investment return (before taxation)	10.59	11.09
Expense inflation rate	6.50	7.00

6.2 Mortality Rates

The assumptions for future mortality rates are based on the results of recent experience investigations conducted by the company.

Allowance has been made for expected future AIDS mortality allowing for the effect of the roll out of Anti Retroviral Treatment. The most recent conducted on 31 October 2010 by the company.

6.3 Expenses

The structure of the BIHL Group is expected to change significantly in 2011 and Botswana Life Insurance Limited (BLIL) will be moving to a new policy administration system. These changes will affect future expenses significantly hence the 2011 budgeted expenses,deflated with one year's inflation rate was used to set the provision for expenses (before adding margins) with a 6.5% escalation per annum thereafter (2009: 7.0%).

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 2010.

6.5 Persistency / Surrender Basis

The assumptions for lapse and surrender rates are based on the results of experience investigations conducted on 30 December 2010 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

Asset Class	31-Dec-10	31-Dec-09
Equities	15.0%	15.0%
Hedged equities	0.0%	0.0%
Property	10.0%	10.0%
Fixed-interest securities	25.0%	25.0%
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.

Embedded Value Report (continued)

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 at 31 December 2010				
Base	539,526	76,954	616,480	
Discontinuance rates decrease by 10%	572,973	76,954	649,927	5.4%
Future expenses decrease by 10%	557,601	76,954	634,555	2.9%
Mortality experience decreases by 5%	538,829	76,954	615,783	(0.1%)
Investment returns decrease by 1%	558,365	81,694	640,059	3.8%
Risk discount rate decreases by 1%	575,356	67,330	642,686	4.3%
Risk discount rate increases by 1%	507,371	85,812	593,183	(3.8%)

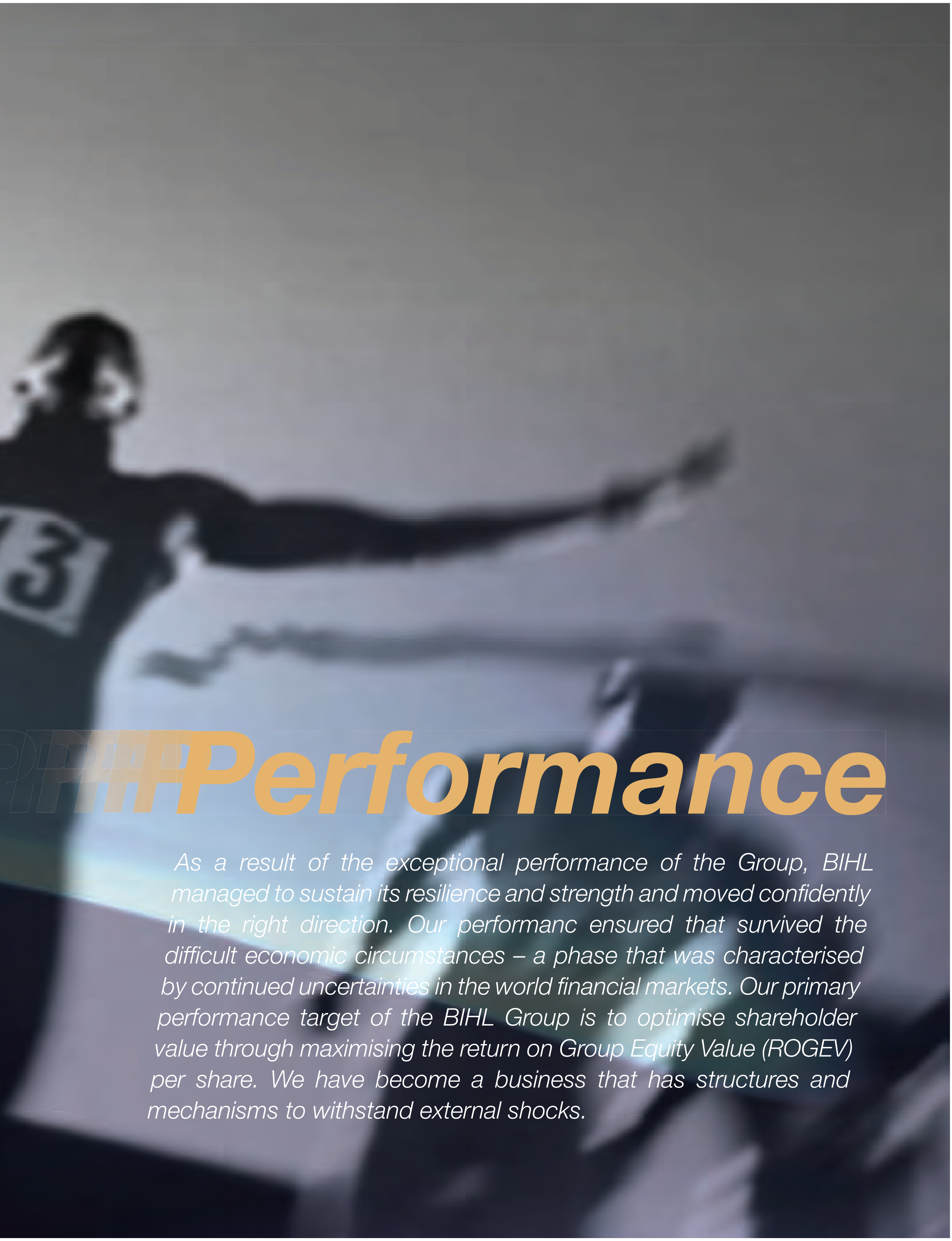
	Value of new business P'000	Cost of capital P'000	Value before cost of capital P'000	% change
Value of one year's new business at 31 December 2010				
Base	124,054	14,792	138,846	
Discontinuance rates decrease by 10%	133,550	14,792	148,342	6.8%
Future expenses decrease by 10%	128,207	14,792	142,999	3.0%
Maintenance and acquisition costs decrease by 10%	132,027	14,792	146,818	5.7%
Mortality experience decreases by 5%	123,456	14,792	138,248	(0.4%)
Investment returns decrease by 1%	127,707	15,336	143,043	3.0%
Risk discount rate decreases by 1%	133,560	12,327	145,887	5.1%
Risk discount rate increases by 1%	116,685	15,780	132,465	(4.6%)

Assumed management action

No management action has been assumed.

GTWaugh

GT Waugh
Statutory Actuary
FIA FASSA



Performance

As a result of the exceptional performance of the Group, BIHL managed to sustain its resilience and strength and moved confidently in the right direction. Our performanc ensured that survived the difficult economic circumstances – a phase that was characterised by continued uncertainties in the world financial markets. Our primary performance target of the BIHL Group is to optimise shareholder value through maximising the return on Group Equity Value (ROGEV) per share. We have become a business that has structures and mechanisms to withstand external shocks.

BIHLGroup Financial Statements

Director's Report

For the year ended 31 December 2010

The Board of Directors of Botswana Insurance Holdings Limited ("the Company") has pleasure in submitting its report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

Nature of 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 micro-lending through its associated companies. The Company is listed on the Botswana Stock Exchange.

Results for the Year

The Group reported a net profit, after tax, for the year to 31 December 2010 of P332 million (31 December 2009: P238 million). Shareholders' equity at 31 December 2010 was P1.374 billion (31 December 2009: P1.261 billion). The results are fully explained in the financial statements.

Stated Capital

The issued and fully paid share capital at 31 December 2010 and 2009 consists of 281,070,652 ordinary shares.

Dividends

A gross interim dividend of 25 thebe per share was declared during the year. The directors propose a final dividend of 41 thebe per share; making the total dividend for the year 66 thebe per share (31 December 2009: 69 thebe per share).

Directors' Shareholdings

The aggregate number of Botswana Insurance Holdings Limited shares held directly or indirectly by directors of the Company is 1,170,389 (31 December 2009: 951,823). Details of the holding of these shares are disclosed in note 19 to the financial statements.

Events Subsequent to the Balance Sheet Date

The directors are not aware of any matters or circumstances arising since the end of the financial period, not otherwise dealt with in this report or the Group Financial Statements that would have a significant effect on the operations of the Group or the results of its operations.

Directorate

B Dambe-Groth Chairperson	
C Chauhan	
F Kellerman	
H Werth	
M Dawes	
U Corea	
A Tyer	Appointed 14 July 2010
J Hinchliffe	Appointed 01 June 2010
M Mpugwa	Appointed 01 June 2010
N Kelly	Resigned 31 January 2010
K Jefferis	Resigned 20 April 2010
T Schultz	Resigned 10 August 2010
V Senye	Resigned 19 August 2010
RD Sikalesele-Vaka	Group Chief Executive Officer (Resigned on 31 March 2011)

Company Secretary and Registered Address

R. Modikana,
Block A: Fairgrounds Office Park,

Director's Statement of Responsibility

For the year ended 31 December 2010

The directors of the 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 and in the manner required by the Insurance Industry Act and the Companies Act of Botswana (Companies Act, 2003).

The Company maintains 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 Company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Our external auditors conduct an examination of the financial statements in conformity with International Standards on Auditing, which include tests of transactions and selective tests of internal accounting controls. Regular meetings are held between management and our external auditors to review matters relating to internal controls and financial reporting. The external auditors have unrestricted access to the Board of Directors.

The annual financial statements set out here were authorised for issue by the board of directors on 20 May, 2011 and were signed on their behalf by:

B ambe-Groth
Chairperson

RD Sikalesele - Vaka
Group Chief Executive Officer

Independent Auditor's Report

For the year ended 31 December 2010

TO THE MEMBERS OF BOTSWANA INSURANCE HOLDINGS LIMITED

Report on the financial statements

We have audited the accompanying Group and Company financial statements of Botswana Insurance Holdings Limited, which comprise the statement of financial position as at 31 December 2010, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 119 to 204.

Directors' responsibility for the financial statements

The Group and Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Botswana (Companies Act, 2003) and the Botswana Insurance Industry Act (Cap 46.01) and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Botswana Insurance Holdings Limited, Group and Company, as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Botswana (Companies Act,2003) and the Botswana Insurance Industry Act (Cap 46:01).

Ernst + Young

Certified Public Accountants
Practicing Member: B. Ndwapi (19980026)

20 May 2011

2nd Floor, Plot 22
Khama Crescent
P O Box 41015
Gaborone
Botswana

Group Consolidated Statement of Financial Position

As at 31 December 2010

		Group			Company		
	Note	Dec 2010 P'000	Dec 2009 Restated P'000	Dec 2008 Restated P'000	Dec 2010 P'000	Dec 2009 Restated P'000	Dec 2008 Restated P'000
ASSETS							
Property and equipment	2	15,854	18,487	16,890	881	-	-
Intangible assets	3	140,782	82,622	79,821	-	-	-
Longterm reinsurance assets	8.7	28,409	41,688	51,828	-	-	-
Investment property	4.4	232,528	137,719	146,612	-	-	-
Investments in associates and joint ventures	4.5	501,142	321,054	34,971	-	-	-
Financial assets at fair value through profit or loss		9,694,490	9,189,297	7,698,774	-	-	-
Bonds (Government, public authority, listed and unlisted corporates)	4.1	3,361,182	2,539,745	1,805,165	-	-	-
Equity investments (Local and foreign)	4.2	6,097,371	6,338,558	5,119,290	-	-	-
Policy loans and other loan advances	4.3	224,448	304,730	341,372	-	-	-
Money market instruments	4.1	11,489	6,264	432,947	-	-	-
Interest in subsidiaries	4.5	-	-	-	313,309	153,467	153,467
Deferred tax asset	10	1,688	961	3,031	-	-	-
					-	-	-
Trade and other receivables	5	176,894	174,872	162,658	84	102,168	57,482
Related party balances	19	-	937	-	4,612	4,961	4,461
Cash,deposits and similar securities	24	1,376,228	1,414,988	1,384,478	17,997	5,462	3,306
Total assets		12,168,015	11,382,625	9,579,063	336,883	266,058	218,716
			-				
EQUITY AND LIABILITIES							
Equity attributable to equity holders of parent							
Stated capital	6	130,821	130,821	130,821	130,821	130,821	130,821
Non - distributable reserves	7	320,270	235,896	184,406	12,102	9,762	9,762
Retained earnings		923,168	895,088	1,015,809	85,251	112,230	2,449
Total equity attributable to equity holders of parent		1,374,259	1,261,805	1,331,036	228,174	252,813	143,032
Non- controlling interests	9	31,588	35,042	31,095	-	-	-
Total equity		1,405,847	1,296,847	1,362,131	228,174	252,813	143,032
Liabilities							
Policyholder liabilities under:	8	10,311,402	9,762,230	7,870,849	-	-	-
Insurance contracts		3,957,129	3,633,013	2,869,511	-	-	-
Investment contracts		6,354,273	6,129,217	5,001,338	-	-	-
Deferred tax liability	10	19,050	21,090	49,760	-	-	-
Tax payable		28,563	15,049	9,168	-	-	-
Related party balances	19	3,960	903	5,252	85,389	-	60,962
Trade and other payables	11	399,193	286,506	281,903	23,320	13,245	14,722
Total equity and liabilities		12,168,015	11,382,625	9,579,063	336,883	266,058	218,716

Group Consolidated Income Statement

For the year ended 31 December 2010

		Group		Company	
	Note	31 Dec 2010 P'000	31 Dec 2009 P'000	31 Dec 2010 P'000	31 Dec 2009 P'000
Revenue					
Net insurance premium income	12	1,620,513	1,253,413	-	-
Gross Insurance premium income		1,639,661	1,276,720	-	-
Insurance premium ceded to reinsurers		(19,148)	(23,307)	-	-
Other investment income		426,655	1,603,443	216,865	413,282
Fee revenue		137,249	120,623	-	-
Investment revenue	13.1	470,191	479,985	216,865	413,282
Net (loss) /gains from financial assets held at fair value through profit or loss	13.2	(180,785)	1,002,835	-	-
Total income		2,047,168	2,856,856	216,865	413,282
Net insurance and investment contract benefits and claims		(1,182,594)	(2,178,646)	-	-
Gross insurance benefits and claims	14	(736,366)	(554,981)	-	-
Reinsurance claims		23,842	30,638	-	-
Change in liabilities under investment contracts		(132,674)	(850,960)	-	-
Change in liabilities under insurance contracts		(337,396)	(803,343)	-	-
Expenses		(534,852)	(447,815)	(27,420)	(19,548)
Sales remuneration		(297,649)	(245,028)	-	-
Administration expenses	15	(237,203)	(202,787)	(27,420)	(19,548)
Profit before share of profit of associates and joint ventures		329,722	230,395	189,445	393,734
Share of profit of associates and joint ventures	4.5	72,217	26,821	-	-
Profit before tax		401,939	257,216	189,445	393,734
Income tax expense	16	(69,456)	(19,544)	(32,464)	(61,767)
Profit for the year		332,483	237,672	156,981	331,967
Attributable to:					
- Equity holders of the parent		322,550	227,302	156,981	331,967
-Non-controlling interests		9,933	10,370	-	-
		332,483	237,672	156,981	331,967
Earnings per share (thebe)					
- basic	17	122	87		
- diluted	17	120	85		

Group Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Group		Company	
	31 Dec 2010 P'000	31 Dec 2009 P'000	31 Dec 2010 P'000	31 Dec 2009 P'000
Profit for the year	332,483	237,672	156,981	331,967
Other comprehensive income				
Exchange differences on translation of foreign operations	(17,083)	(9,170)	-	-
Total comprehensive income for the year	315,400	228,502	156,981	331,967
Total comprehensive income attributable to:				
- Equity holders of the parent	310,194	221,414	156,981	331,967
- Non-controlling interests	5,206	7,088	-	-
	315,400	228,502	156,981	331,967

Group Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

		← Attributable to equity of holders of parent		
		Treasury shares P'000	Share based payment reserve P'000	Statutory capital reserves P'000
Group				
For the year ended 31 December 2009				
Opening balance as previously reported	40,601	(56,861)	32,331	355,116
Restatement	90,220	(92,774)	-	-
As restated	130,821	(149,635)	32,331	355,116
Foreign currency translation	-	-	-	-
Profit for the year	-	-	-	-
Total comprehensive income	-	-	-	-
Share based payment expense	-	-	15,689	-
(Transfer to statutory reserve)/ Transfer from retained income	-	-	-	69,724
(Transfer from consolidation reserve)/ Transfer to retained income	-	-	-	-
Cost of treasury shares acquired/(disposed)	-	302	-	-
Dividends paid	-	-	-	-
Share Trust vested treasury shares	-	(3,672)	-	-
Balance at 31 December 2009	**130,821**	**(153,005)**	**48,020**	**424,840**
For the year ended 31 December 2010				
Opening balance as previously reported	130,821	(153,005)	48,020	424,840
Foreign currency translation	-	-	-	-
Profit for the year	-	-	-	-
Total comprehensive income	-	-	-	-
Share based payment expense	-	-	9,105	-
(Transfer to statutory reserve)/ Transfer from retained income	-	-	-	69,328
(Transfer from consolidation reserve)/ Transfer to retained income	-	-	-	-
Cost of treasury shares acquired/(disposed)	-	(65)	-	-
Dividends paid	-	-	-	-
Share Trust vested treasury shares	-	25,055	-	-
Balance at 31 December 2010	**130,821**	**(128,015)**	**57,125**	**494,168**
Company				
For the year ended 31 December 2009				
Opening balance as previously reported	40,601	-	-	9,762
Restatement	90,220	-		-
As restated	130,821	-	-	9,762
Profit for the year after tax	-	-	-	-
Dividends paid	-	-	-	-
Balance at 31 December 2009	**130,821**	**-**	**-**	**9,762**
For the year ended 31 December 2010				
Opening balance as previously reported	130,821	-	-	9,762
Profit for the year after tax	-	-	-	-
Share based payment expense	-	-	2,340	-
Dividends paid	-	-	-	-
Balance at 31 December 2010	**130,821**	**-**	**2,340**	**9,762**

	Attributable to equity of holders of parent						
	Foreign curreny translation reserve P'000	Consolidation reserves P'000	Total-non-distributable reserve P'000	Retained income P'000	Total P'000	Non-controlling interest P'000	Total Equity P'000
	22,253	(75,659)	277,180	1,067,587	1,385,368	31,095	1,416,463
	-	-	(92,774)	(51,778)	(54,332)	-	(54,332)
	22,253	(75,659)	184,406	1,015,809	1,331,036	31,095	1,362,131
	(5,888)	-	(5,888)	-	(5,888)	(3,282)	(9,170)
	-	-	-	227,302	227,302	10,370	237,672
	(5,888)	-	(5,888)	227,302	221,414	7,088	228,502
	-	-	15,689	-	15,689	-	15,689
	-	-	69,724	(69,724)	-	-	-
	-	(24,665)	(24,665)	24,665	-	-	-
	-	-	302	302	302	-	-
	-	-	-	(261,396)	(261,396)	(3,141)	(264,537)
	-	-	(3,672)	(41,568)	(45,240)	-	(45,240)
	16,365	**(100,324)**	**235,896**	**895,088**	**1,261,805**	**35,042**	**1,296,847**
	16,365	(100,324)	235,896	895,088	1,261,805	35,042	1,296,847
	(12,356)	-	(12,356)	-	(12,356)	(4,727)	(17,083)
	-	-	-	322,550	322,550	9,933	332,483
	(12,356)	-	(12,356)	322,550	310,194	5,206	315,400
	-	-	9,105	-	9,105	-	9,105
	-	-	69,328	(69,328)	-	-	-
	-	(6,197)	(6,197)	6,197	-	-	-
	-	(496)	(561)	-	(561)	-	(561)
	-	-	-	(216,425)	(216,425)	(8,660)	(225,085)
	-	-	25,055	(14,914)	10,141	-	10,141
	4,009	**(107,017)**	**320,270**	**923,168**	**1,374,259**	**31,588**	**1,405,847**
	-	-	9,762	2,449	52,812	-	52,812
	-	-	-	-	90,220	-	90,220
	-	-	9,762	2,449	143,032	-	143,032
	-	-	-	331,967	331,967	-	331,967
	-	-	-	(222,186)	(222,186)	-	(222,186)
	-	**-**	**9,762**	**112,230**	**252,813**	**-**	**252,813**
	-	-	9,762	112,230	252,813	-	252,813
	-	-	-	156,981	156,981	-	156,981
	-	-	2,340	-	2,340	-	2,340
	-	-	-	(183,960)	(183,960)	-	(183,960)
	-	**-**	**1,864**	**85,251**	**228,174**	**-**	**228,174**

Group Statement of Cash Flows

For the year ended 31 December 2010

		Group		Company	
	Note	31 Dec 2010 P'000	31 Dec 2009 P'000	31 Dec 2010 P'000	31 Dec 2009 P'000
Net cashflows from operating activities		718,672	1,878,222	173,258	2,156
Cash generated/(utilised) from operations	23	937,656	2,124,523	172,858	(127,173)
Interest received		45,502	35,115	400	458
Dividends received from investments/subsidiaries		11,118	23,384	216,424	412,824
Tax paid		(59,179)	(40,263)	(32,464)	(61,767)
Dividends paid		(216,425)	(264,537)	(183,960)	(222,186)
Cash outflows from investing activities		(757,432)	(1,847,713)	(160,723)	-
Purchase of property and equipment	2	(2,766)	(4,191)	(881)	-
Purchase of computer software	3	(16,913)	(1,753)	-	-
Purchase of subsidiary		(56,668)	-	(56,668)	-
Purchase of investment property		-	(17,762)	-	-
Proceeds from disposal of investment property		-	1,920	-	-
Investment in associate	4.5	(115,608)	(68,445)	-	-
Net movement in investments		(565,478)	(1,757,481)	(103,174)	-
Net increase increase in cash and cash equivalents		(38,760)	30,509	12,535	2,156
Cash and cash equivalents at the beginning of the year		1,414,988	1,384,479	5,462	3,306
Cash and cash equivalents at the end of the year	24	1,376,228	1,414,988	17,997	5,462

Report of Statutory Actuary

For the year ended 31 December 2010

Report of the Independent Actuary

	Group	
	December 2010 P'000	December 2009 P'000
Statement of actuarial values of assets and liabilities		
Total assets as per the statement of financial position	12,168,015	11,382,625
Current liabilities, deferred taxation and minorities as per the statement of financial position	(482,354)	(358,590)
Net assets	11,685,661	11,024,035
Actuarial value of policy liabilities	(10,311,402)	(9,762,230)
Excess of assets over liabilities	1,374,259	1,261,805
Capital Adequacy Requirement	131,448	139,538
Capital Adequacy Requirement cover	10.45	9.04
Analysis of change in excess of assets over liabilities		
Excess assets as at beginning of reporting period	1,261,805	1,331,036
Excess assets as at end of reporting period	1,374,258	1,261,805
Change in excess assets over the reporting period	112,454	(69,231)
This change in the excess assets is due to the following factors:		
Investment income	77,918	62,372
Capital gains	13,324	(77,387)
Total investment return on shareholders' funds	91,242	(15,015)
Changes in valuation methods or assumptions	(27,561)	16,459
Operating profit	328,324	245,402
Taxation	(69,456)	(19,544)
Profit for the year after tax	322,550	227,302
Currencyt ranslation	(12,356)	(5,888)
Movement in consolidation reserve	(561)	302
Changes in share based payment and treasury shares	19,246	(29,551)
Total earnings	328,879	192,165
Dividendsp aid	(216,425)	(261,396)
Total change in excess assets	112,454	(69,231)

Report of Statutory Actuary (continued)

For the year ended 31 December 2010

Certification of Financial Position

I do hereby certify that

- the valuation of Botswana Insurance Holdings Limited as at 31 December 2010, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary Report has been produced in accordance with the Botswana Insurance Industry Act (Chapter 46:01) and the professional guidance notes of the Actuarial Society of South Africa ("ASSA"), PGN103 (2005) and PGN104;
- the Group was financially sound as at the valuation date and, in my opinion, is likely to remain financially sound for the foreseeable future.

Changes in valuation methods or assumptions of assets and liabilities

The value of the policyholder liabilities as at 31 December 2010 increased by P27.6 million as a result of changes in valuation assumptions and methodology. The components of this were as follows:

	2010 P million	2009 P million
Mortality	-	(22.8)
Lapse and surrender assumptions	6.2	14.1
Expenses	7.1	5.5
Economic	(1.2)	(2.7)
Other	15.4	(10.7)
Total	27.6	(16.5)

Valuation Methods and Assumptions

The valuation was performed using the Financial Soundness Valuation method for insurance contracts and for investment contracts with participation in profits on a discretionary basis. Investment contracts without discretionary participation features have been valued in terms of IAS 39 Financial 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 financial soundness 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. These assumptions are based on past experience and anticipated future trends. In particular, provision is made for the expected impact of AIDS on the experience of the company. 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

In the calculation of the policy liabilities for insurance contracts and for investment contracts with participation in profits on a discretionary basis, compulsory margins prescribed in the ASSA guidelines have been added to the various realistic assumptions regarding future experience. In addition, discretionary margins have been added in line with policy design.

The purpose of these margins is to introduce an appropriate degree of prudence, to allow for possible adverse deviations in the experience of the company and to avoid the premature recognition of profits that may give rise to losses in later years. Profits are recognised in line with work done and the risk borne by the company.

For market-related unbundled business (e.g. those where a portion of the premium is allocated to an accumulation account) the liability was taken as the market value of the units notionally credited to the policies, less the present value of future charges not required for risk benefits and renewal expenses. For the purpose of calculating the Pula reserves, the discount rates as supplied below, were used. Appropriate reserves for the unexpired risk portion and for claims incurred but not reported were held for Group risk premium benefits.

In the case of group policies for which the bonuses are stabilised, the liabilities are equal to the balances of the investment accounts plus corresponding bonus stabilisation reserves. Group linked business was valued at the market value of the underlying assets.

Liabilities for life and term annuities and guaranteed non-profit endowment policies 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 10.8% p.a. A discount rate of 10.8% per annum (2009: 11.3%) was used. Bonus stabilisation reserves were held to equate the liabilities to the market/fair value of the corresponding assets.

For individual unbundled policies of which the bonuses are stabilised/smoothed, a gross premium valuation was done. Future bonuses were provided for at bonus rates that would be declared should an investment return of 10.8% per annum be earned. A discount rate of 10.8% per annum (2009: 11.3%) was used to place a present value on assumed future cash flows. A negative Pula reserve has been allowed for, equal to the present value of future charges not required for risk benefits and renewal expenses. Bonus stabilisation reserves were held to 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 discretionary margins are as follows:

- The mortality basis has been increased to reflect uncertainty due to AIDS, by the addition of an extra 94.78% for females and 63.33% for females of the AIDS mortality table (inclusive of planned margins)
- The expense inflation has been increased by 7.14%
- The discount rate on single premium guaranteed annuities has been decreased by 0.75% p.a.
- The renewal expenses have been increased by 17.8% (inclusive of prescribed margin)
- The surrender rates have been increased by 25% of the best estimate assumption (inclusive of prescribed margin)
- Additional reserves are created to ensure that no policy is treated as an asset

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 be a short term spike. The estimate for the future expected Botswana inflation was obtained from an economist.The assumptions quoted below are before the allowance for compulsory and discretionary margins and tax:

	2010 %	2009 %
Gilt return	9.5	10.0
Equity return	13.0	13.5
Property return	10.5	11.0
Cash return	8.5	9.0
Average return	10.6	11.1
Expense inflation	6.5	7.0

Bonus Rates

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

Policy Decrements

The assumptions (before adding margins) with regard to future surrender, lapse, disability payment termination, mortality, medical claims and morbidity rates were consistent with the company's recent experience and provision has been made for the expected increase in the occurrence of AIDS-related claims. The most recent lapse investigation was done as at the end of December 2010 with effective date of June 2010. The most recent mortality investigation was done in October 2010.

Expenses

The structure of the BIHL Group is expected to change significantly in 2011 and BLIL will be moving to a new policy administration system. These changes will affect the future expenses levels significantly hence the 2011 budgeted expenses, deflated with one year's inflation rate was used to set the provision for expenses (before adding margins) with a 6.5% escalation per annum thereafter (previous year: 7.0%).

Report of Statutory Actuary (continued)

For the year ended 31 December 2010

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. No negative Pula reserves have thus been 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 financial statements. Goodwill has been excluded from the value of the assets.

Capital Adequacy Requirements

The capital adequacy requirement 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 capital adequacy requirements on 2 bases have been calculated in accordance with section 6 of PGN 104 of the Actuarial Society of South Africa and the maximum is used.

Botswana Life Insurance Limited calculates its capital adequacy requirement on the termination capital adequacy requirement (TCAR) basis. In determination of the amount of the capital adequacy requirement, no allowance has been made for action by management.

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the ordinary capital adequacy requirements (OCAR), it has been assumed that assets backing the capital adequacy requirements are invested 25% in fixed interest assets (2009: 25%), 15% in equities (2009: 15%), 10% in property (2009: 10%), and 50% in cash (2009:50%).

The ratio of accumulated surplus to the Capital Adequacy Requirement of P131.4 million (December 2009: P139.5 million) is 10.45 times (December 2009: 9.04 times).

GT Waugh
Statutory Actuary
30 April 2011

Basis of Presentation and Accounting Policies

For the year ended 31 December 2010

General information

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 micro-lending through its associated companies.

The Company is a limited liability company incorporated in Botswana. The Company is listed on the Botswana Stock Exchange.

The Group's ultimate parent company, Sanlam, holds 53% of the Company's stated capital. Sanlam is one of the leading financial services groups in South Africa. It is listed on the JSE Securities Exchange in Johannesburg and on the Namibian Stock Exchange.

Basis of presentation

The Group annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Botswana Companies Act (Companies Act 2003), the Botswana Insurance Industry Act (Cap:46:01) and the Botswana Stock Exchange Act. The financial statements have been prepared on the historical cost convention, modified by measurement at fair value for financial assets, policyholder liabilities and investment properties.

All amounts in the notes are shown in thousands of Pula (P'000) which is the Group's functional and 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 150. The Financial Soundness Valuation methodology as outlined in the report of the Statutory Actuary is equivalent to the liability adequacy test.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), Insurance Industry Act (CAP 46:01), the Botswana Companies Act (Companies Act, 2003) and the Botswana Stock Exchange Act. The accounting policies of the Group are the same as the accounting policies for the Company.

Changes in accounting policies

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective 1 January 2010.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010

The amendment clarifies the accounting for cash-settled share based payment transaction, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pay for these goods or services. The amendment incorporates the guidance from IFRIC 8 scope of IFRS 2 and IFRIC 11 Group and Treasury Share Transactions.

Adoption of this revised standard did not have any material effect on the financial performance or position of the company.

Listed below are standards and interpretations that have been issued and were applied in the current financial year, but had no significant impacts on the financial statements:

IFRS 3 Business combination (Revised)

The standard introduces significant changes in the accounting for business combinations with acquisition dates after 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the reported results in the period that an acquisition occurs and future reported results.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Changes in accounting policies (continued)

Improvement to IFRSs

In April 2009 the IASB issued its annual amendments to International Financial Reporting Standards (IFRSs) and the related Bases for Conclusions and guidance made. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of a major project. The amendments primarily deal with a view to remove inconsistencies and clarifying wording. The Group has adopted the following amendments to standards as they come to effect for the reporting period beginning on 1 January 2010:

> *IFRS 2 Share based Payment:* the amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2. It will be applied retrospectively for annual periods beginning on or after 1 July 2009 with early application permitted. This has no impact on the Group as there are no such activities during 2010.

> *IFRS 5 Non-Current Assets Held for Sale Discontinued Operations:* amendment clarifies the disclosure requirements for non-current assets or disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5 although the general requirements of IAS 1 still apply to them. It is effective for annual periods beginning on or after 1 January 2010 and applied prospectively. This has no impact on the Group as the Group has no discontinued operations or held for sale assets that fall into the scope of IFRS 5.

> *IAS 7 Statement of Cash flow:* amendment explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. It is applicable retrospectively to annual periods beginning on or after 1 January 2010. This has no impact on the Group as the cash flow from investing activities does not include expenditures that results in recognised assets.

> *IAS17 leases:* The amendment removes the specific guidance on classifying leases of land and of buildings as operating or finance lease such that only the general guidance remains. It is effective for annual periods beginning on or after 1 January 2010 and applied retrospectively unless information necessary to apply the amendment retrospectively is not available. This has no impact on the Group's financial statement as the Group does not lease any land.

> *IAS 39 Financial Instruments:* Recognition and Measurement: amendment clarifies the assessment of loan repayment penalties as embedded derivatives, the scope exemption for contracts associated with a business combination and the accounting treatment for gains and losses on cash flow hedges. The amendment has no impact on the Group. Effective for all financial periods commencing on or after 1 January 2010.

> *IFRIC 9 Reassessment of Embedded Derivatives:* Amendment clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities under common control or the formation of a joint venture. This has no impact on the Group as the Group does not have any joint venture business or acquired any businesses in a business combination between entities under common control.

> *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:* Amendment makes amendment to the restriction on the entity that can hold hedging instruments. This has no impact on the Group as the Group does not have any foreign operations nor does it hedge.

Standards issued but not yet effective

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

> *Related Party Disclosures (amendment)*
The amended standard is effective for annual periods beginning on or after 1 January 2011 and must be applied retrospectively. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either

the partial exemption for government-related entities or for the entire standard.

> *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments for a fixed amount of foreign currency, or to acquire a fixed number of the entity's own instruments for a fixed amount in any currency. This amendment must be applied retrospectively and will have no impact on the Group as Botswana Insurance Holdings Limited does not have these instruments.

> *IFRIC 14 Prepayments of a minimum funding requirement (amendment)*
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

> *IFRIC 19 Extinguishing Financial Liability with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010 and must be applied retrospectively if the amendment constitutes a change in accounting policy. The interpretation clarifies that equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

> *IFRS 7 Financial Instruments: Disclosures*
The amendment provide new disclosures for the derecognition of financial asset. They are expected to help the users of the financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets. This amendment is to be applied for annual periods beginning on or after 1 July 2011. The Group does not normally transfer financial assets but instead hold them to maturity but if it does happen the disclosure will be done accordingly.

> *IFRS 9 Financial instrument*
This standard will eventually replace IAS 39 Financial instrument: Recognition and Measurement. This standard constitutes the first phase of the replacement of IAS 39 and focuses on the classification and measurement of financial assets and financial liabilities. It is effective 1 January 2013 with an option of early adoption. The standard classifies financial instruments into two main categories, financial instruments subsequently measured at amortised costs or fair value. The standard also allows an entity the option to designate financial instruments at fair value through profit of loss .The financial impact is not expected to be significant because the Group classifies its financial assets as at fair value through profit or loss and is likely to choose the fair value option when the standard is adopted since it meets the criteria. The treatment prescribed regarding financial liabilities is more or less similar to what is current required by IAS 39.

The amendments listed below are considered to have no material impact on the Group's financial statement but could lead to more disclosures:

> IAS 12 Deferred tax: Recovery of underlying assets

> IAS 1 Presentation of Financial Statements

> IAS 27 Consolidated and Separate Financial Statements

> IFRIC 13 Customer Loyalty Programmes

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Abbreviations and key

A list of insurance specific abbreviations used throughout the publication:

DPF	Discretionary participation features
PVIF	Present value of in-force business
DAC	Deferred acquisition cost
IBNR	Claims incurred but not yet reported

A glossy of insurance specific terminology:

Insurance contract	A contract under which one party (the insurer) accepts significant insurance from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affect 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 a non-financial variable that the variable is not specific to a party to the contract.
Life Insurance	Contract under which the term of insurance covers a period longer than 12 months. For example: Whole life or term insurance.
Investment management services	Managing of investments, for which a service fee will be charged.
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.
Premiums earned	Premiums earned are when it is payable by the policyholder.
Premiums written	Premiums written are on accepting the insurance contract by the policyholder.
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.
Discretionary Participation Feature (DP	A contractual right to receive, as a supplement to guaranteed benefits , additional benefits: a) that are likely to be a significant portion of the total contractual benefits; b) whose amount or timing is contractually at the discretion of the issuer; and c) that are contractually based on: i. the performace of a specified pool of contracts or a specified type of contract ii. realised and/or unrealised investment returns on a specified pool of assets held by the insurer; or iii. the profit or loss of the company, fund or other entity that issues the contract.
Liability adequacy test	Reassessment of the sufficiency of the insurance liability to cover future insurance obligations.
PVIF	Present value of the entity's interest in the expected pre-tax cash flows of the in-force business acquired.

DAC	Direct and indirect costs incurred during the writing or renewing of an insurance contract, which are deferred, to the extent that these costs will be recovered out of future revenue margins.
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.
Assumptions	Underlying variables and uncertainties which are taken into account in determining values, which could be insurance contract liabilities or financial assets fair value.
Benefit experience variation	Difference between the expected benefit payout and the actual payout.
IBNR	Claims incurred by the policyholder but not yet reported to the insurance company.
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.
IFRS 4	International Financial Reporting Standard that regulates Insurance Contracts.

A glossy of share-based payment specific terminology:

Cash-settled share based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash as consideration for equity instruments of its parent (including shares or share options).
Equity-settled share-based payment transaction	A share-based payment transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).
Employees and others providing similar services	Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.
Equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
Equity instrument granted	The right (conditional or unconditional) to an equity instrument of the entity conferred by the entity on another party, under a share-based payment arrangement.
Fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Abbreviations and key (continued)

Grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
Intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of P15 on a share with a fair value of P20 has an intrinsic value of P5.
Market condition	A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.
Measurement date	The date at which the fair value of the equity instruments granted is measured for the purposes of IFRS 2. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.
Share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive a) cash or other assets of the entity for amounts that are based on the price (or value) equity instruments (including shares or share options) of the entity, or another group entity, or b) equity instruments of the entity (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.

Share-based payment transaction	A transaction in which the entity a) receives goods or services as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services (including an employee) in a share-based payment arrangement, or b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods and services for amounts that are based on the price of the entity's shares or other equity instruments of the entity.
Share option	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
Vest	To become an entitlement. Under a share-based payment arrangement, a counter-party's right to receive cash, other assets, or equity instruments of the entity vests upon satisfaction of any specified vesting conditions.
Vesting conditions	The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity , under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the employee or supplier to complete a specific period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profits over a specified period of time). A performance condition might include a market condition.
Vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Significant accounting judgements, estimates and assumptions

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

(i) Estimate of future benefit payments and premiums arising from long-term insurance contracts and other intangible assets

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that 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.

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company 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 determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS 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 company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity. For contracts without fixed terms, it is assumed that the Company 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 current market returns as well as expectations about future economic and financial developments.

The balance of policyholder liabilities at 31 December 2010 was P3, 957 million (31 December 2009: P3, 633 million).

(ii) Fair value of investments in un-quoted equity and other loan advances

The investments in un-quoted equity instruments and loans 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. Carrying amount at year end P1.1 billion (2009: P1.3 billion).

(iii) Impairment of financial assets

The investments in unlisted equity instruments, debentures and other loans have been impaired based on the expected cash flows, discounted at the current rates 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 significant judgement uncertainty. Impairment losses written off in the current year amounted to P1.5 million (31 December 2009: P1.9 million).

(iv) 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 such indicators 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.

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(v) Determination of fair value of investment properties

Investment property comprise properties held to earn rental income and /or capital appreciation. Investment properties that generate income 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 qualification and extensive experience in property valuation in Botswana.

(vi) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

(vii) Liability for Life Insurance Contracts

The liability for Life Insurance contracts is either based 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 best current estimates of future cash flows.

All acquisition costs to the sale of new policies are recognised in the income statement in the year of sale and are not deferred.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company base 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 life style, could result in significant changes to the 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 are used in establishing these assumptions.

Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

The carrying value at the balance sheet date for Life Insurance contract liabilities are P3,957 million (2009: P3,633 million)

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 P19.8 million (2009: P21.8 million)

Provision for future bonuses

Future bonuses of 3% per annum are allowed for in the Financial Soundness Valuation.

Reversionary bonus business

The business is valued on a prospective basis assuming 3% per annum bonus rates going forward and allowing for prescribed margins. Bonus stabilisation reserves have been established.

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 P22.3 million (Dec 2009: P21.5 million)

Participating annuities

There are very few such policies on the book. Those that are participating annuities, have been in force for two years. The carrying amount of participating annuities is P48.0 million (Dec 2009: P50.7 million)

Non-participating annuity business

Non-participating life annuity instalments and future expenses in respect of these instalments are discounted at market interest rates based on the bond yield curve at the valuation date, reduced by the prescribed and additional margin, as well as investment management expenses. All profits or losses accrue to the shareholders when incurred. A discretionary margin is held for this block of business. The carrying amount for non participating annuity business is P2.095 billion (Dec 2009: P1.908 billion)

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Significant accounting judgements, estimates and assumptions (continued)

Other non-participating business

Other non-participating business forms less than 1% of the total liabilities. Most of the other non-participating business liabilities are valued on a discounted cash flow basis at interest rates based on the bond yield curve at the valuation date. The carrying amount for other non participating business is P182.9 million (Dec 2009: P84.1 million)

HIV/AIDS

No specific provision is set up for HIV/AIDS claims. Reserves are calculated prospectively and contain allowances for HIV/AIDS claims.

Premium rates for group business are reviewed annually. The HIV/AIDS provision is based on the expected HIV/AIDS claims in a year and the time that may elapse before premium rates and underwriting conditions can be suitably adjusted should actual experience be worse than expected.

Provision for minimum investment return guarantees

In addition to the liabilities described above, provision is made consistent with actuarial guidance note PGN 110 for the possible cost of minimum investment return guarantees provided by the annuity business. Additional mismatch reserves are also held on the annuity business. The carrying amount for the mismatch reserve is P16.6 million (Dec 2009: P19.7 million)

Working capital

To the extent that the management of working capital gives rise to profits, no credit is taken for this in determining the policy liabilities.

Reinsurance

Liabilities are valued gross before taking into account reinsurance. No adjustments were made for the effects of reinsurance. The Company issues contracts that transfer insurance risk. This section summarises this risk and the way the Company manages it.

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 balance sheet in terms of IFRS but are disclosed as a note. Refer to note 8.

Summary of significant accounting policies

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding discounts, rebates and VAT.

Specifically revenue is recognised as follows:

a) *Fees for investment management services*

Fees for investment management services in respect of investment contracts are recognised as services are rendered on the accrual basis and are based on the closing fund values at the end of each period.

Fees consist primarily of investment management fees 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.

b) *Investment income*

Non-cancellable minimum lease payments under operating leases are recognised on a straight line basis in the income statement over the lease term. Contingent rental income is recognised when due .The difference between rental income on a straight-line and accrual basis is recognised as part of the carrying amount of properties in the balance sheet.

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

c) *Deposit administration fund income*

Deposit Administration (DA) income are fees charged for asset management services on a fund basis. The income is charged to the fund based on assets under management on a daily basis and is recovered at the end of every month. Deposit Administration Fund is a Capital Guaranteed Fund offered by Bifm on the back of its Life Insurance license. This product is offered to clients who have no appetite for risk and who desire full protection of their Capital. The deposit administration assets and the corresponding liability are included in the liquidity and credit risk disclosure of the entity.

d) *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.

e) *Premium income*

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 when received.

Premium income is reflected gross of reassurance premiums and premiums payable on assumed reinsurance are recognised when due.

Gross changes in the unearned premium provision are recorded against premiums.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

f) *Reinsurance recoveries*

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. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision 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 contracts 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 company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the company 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 its amortised cost at the reversal date

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. At as year end the reinsurance contracts the company entered into during the year had impact of P1.9 million loss (2009: P1.7 million gain) on the company profit.

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Botswana Insurance Holdings Limited (BIHL) and its subsidiaries as at 31 December 2010. The reporting dates of the subsidiaries and the Group are within three months of the Company's reporting date and all use consistent accounting policies.

(i) *Subsidiaries*

Subsidiaries are those entities in which the Group has an interest and control; where control represents the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are presently exercisable are also taken into consideration when assessing whether the Group has the power to govern the financial and operating policies of another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and consolidation ceases from the date that control ceases.

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.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investment in subsidiaries, associates and joint ventures are recognised at cost less accumulated impairment losses in the Company's only financial statements.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary,

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of signifi cart accounting policies (continued)

without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- > Derecognises the assets (including goodwill) and liabilities of the subsidiary
- > Derecognises the carrying amount of any non-controlling interest
- > Recognises the fair value of the consideration received
- > Recognises the fair value of any investment retained
- > Recognises any surplus or deficit in profit or loss
- > Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(ii) Special Purpose entities

The Group consolidates special purpose entities ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

(iii) 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 reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. 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 year ends of some of the associates do not coincide with that of the Group. Where the reporting date of any of the associates is different from that of the Group, adjustments are made for the effects of any major transactions or events that occur between the reporting date of the associate and that of the Group.

(iv) Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. The Group recognises its interest in the joint venture using equity accounting.

The year end of the joint venture company is 31 October. Adjustments are made for any significant transactions or events in the intervening period.

(v) Acquisition of non-controlling interest

Non-controlling interest 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 effected is 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 statement of financial position 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

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets or liabilities at fair value through profit or loss, loans and receivables, or financial liabilities at amortised cost as appropriate. When financial instruments are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Subsequent to initial recognition financial instruments are remeasured at fair value or at amortised cost depending on the classification. Fair value adjustments on at fair value through profit loss financial instruments and realized gains and losses on other financial instruments are recognised in profit and loss.

The Group determines the classification of its financial instruments on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments at fair value through profit or loss

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions.

It is classified as held for trading. A financial asset or financial liability is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Upon initial recognition it is designated by the entity as at fair value through profit or loss, because either

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The fair values of quoted investments are based on the quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

The following investments in financial assets have been designated as at fair value through profit or loss because they are held to support policyholder liabilities which are measured at fair value. None are held for trading:

> Bonds (Government, public authority, listed and unlisted corporate)
> Money market instruments
> Equity investments
> Policy loans

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investment are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

Derecognising financial assets

A financial asset or part thereof is de-recognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset;

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. The continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and / or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may re-purchase, except in the case of a put option (including a cash settled option or a similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term, on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). Gains or losses on financial liabilities held at fair value through profit or loss are recognised in profit or loss.

Financial liabilities are designated at initial recognition as at fair value through profit or loss if the following criteria are met:

(i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

(ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial liabilities at amortised cost

Other liabilities such as trade payables are classified as financial liabilities at amortised cost and are initially measured at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Gains and losses on financial liabilities at amortised cost are recognised through the amortisation process or on derecognition.

Derecognising financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Impairment of financial assets and non-financial assets

(i) Financial assets at amortised cost

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of an impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the loss is recognised in the income statement.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the company.

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 on the basis of 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 (such as an improvement in the debtor's credit rating), 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. The amount of the reversal shall be recognised in profit or loss.

(ii) Non- financial assets

Assets that are subject to depreciation/amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the 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 and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount 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 first assessed for impairment purposes on an individual basis unless the recoverable amount cannot be determined on this basis, in such an instance the assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses of continuing operations are recognised in the income statement 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 equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of signifi cart accounting policies (continued)

that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of 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 the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December. The entire carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

Goodwill on acquisition of associates is included in the carrying amount of an associate and is not separately recognised therefore it is not annually tested for impairment separately.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a current, legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(i) Functional and presentation currency

The consolidated 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.

(ii) 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 statement of financial position 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. 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.

(iii) Foreign operation financial statements

The functional currency of the foreign operation, African Life Financial Services Limited Zambia, is Zambian Kwacha. As at the reporting date, the assets and liabilities of the subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the statement of financial position date and the income statement is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. 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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on straight line basis to write off the cost of each asset to their residual value over their estimated useful lives as follows;

Buildings	20 years
Furniture and fittings	5 – 10 years

Computer equipment	4 years
Motor vehicles	4 years
Leasehold improvements	lesser of lease term and 4 years

The leasehold improvements are depreciated over the lower of the lease term and the useful life of the improvements. 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, plant 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 plant 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.

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 the 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 is 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 asset is available for use and ceases at the earlier of the asset being classified as held-for-sale and the date that the assets is derecognised.

i) Computer software

Generally costs associated with researching computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the Company and which have a probable benefit beyond one year, are recognised as an asset. Computer software development costs are recognised as intangible asset only when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. 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 balance sheet 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 balance sheet date.

ii) Business combinations and goodwilll

Business combinations from 1 January 2010

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 and the amount of any non-controlling interest in the acquiree. 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 mbedded derivatives in host

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

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 to be an asset or liability, will be recognised in ccordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. 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 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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, for example under an insurance contract, 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)

(i) Deferred income tax

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

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

> where the deferred income 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 income 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 income 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 income 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 income tax assets is reviewed at each statement of financial position 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it is probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income 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 statement of financial position date.

Deferred income tax relating to items recognised directly in equity is recognised in other comprehensive income and not in the income statement. Deferred income 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 income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(ii) Current income tax

Taxation is provided in the financial statements using the gross method of taxation. 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. Withholding tax on dividends paid is set off against the additional company taxation of the Group in the year in which the dividends are paid.

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. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the statement of financial position date.

(iii) Value Added Tax (VAT)

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.

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 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.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

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

(i) Pension obligations

The defined contribution plan

The Group operates a defined contribution plan. Under the defined contribution plan;

(a) 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

(b) 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.

(ii) 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.

There are no post-retirement medical funding requirements.

(iii) 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 termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits are normally paid off within 12 months, hence they are not discounted.

(iv) Leave pay provision

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 the year end. The charge is made to expenses in the income statement and trade and other payables in the statement of financial position.

(v) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus is recognised in trade and other payables, when there is no realistic alternative but to settle the liability and when at least one of the following conditions is met:

> the company has a present legal or constructive obligation to make such payments as a result of past events and;

> a realiable 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.

(vi) 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 has been operating an equity settled group share based payment scheme. The scheme was 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 all the 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 the current year the Group introduced two additional schemes to replace the old scheme: The Share Option Scheme (SOS) and the Conditional Share Plan (CSP).

a) Share Option Scheme (SOS)

All employees are eligible to participate on the scheme based on performance. Each employer company recommends to the HR Committee which employees it intends to incentivise by making offers subject to the approval of the HR Committee. Options are exercised by payment of the offer price after the vesting date. The vesting period is three years. The subsidiaries accounts for the awards as cash settled while the Holding Company accounts for the awards as equity settled.

b) *Conditional Share Plan (CSP)*

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 accounts 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 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, provided that 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. However, if a new award 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 22. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense

Policy contract benefits

Life insurance policy claims received up to the last day of each financial period are provided for and included in policy benefits.

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.

Income from reinsurance policies are recognised concurrently with the recognition of the related policy benefit.

Premiums payable on assumed reinsurance are recognised when due.

Claims handling costs are accounted for separately.

Dividends

Dividends are recorded in the Group's 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 statement of financial position date. Dividends that are approved after the statement of financial position 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.

Selling expenses

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

Administration expenses

Administration expenses include, inter alia, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, claims handling costs, product development and training costs and are recognised on an accruals basis.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

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 (where the Group is the lessee)

Operating leases

An operating lease is one in which all the risks and benefits of ownership are effectively retained by the lessor. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term or on a systematic basis when the straight line basis does not reflect the physical usage of the asset.

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 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 financial statements where an inflow of economic benefits is probable.

Non-distributable reserves

Non-distributable reserves include the capital reserve account as required by section 9 of the Botswana Insurance Industry Act (Chapter 46:01). The provisions of the Botswana Insurance Industry Act require that 25% of the surplus arising in a year should be transferred to this reserve. This reserve is to be utilised at least once every five years to increase the paid up stated capital of the Company.

Consolidation reserve

The consolidation reserve is created for the effect of treasury shares which represents BIHL shares purchased and held within the Group. The cost of treasury shares is deducted from equity through a separate reserve account. 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 temporary differences insofar as the mismatch is reversed when the affected investments are realised.

Long-term reinsurance contracts

Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts. The expected claims and benefits to which the Group is entitled under these contracts are recognised as assets. The Group assesses its long-term reinsurance assets for impairment bi-annually. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company 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.

Insurance Contracts 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 product designed to provide death cover for the policyholder and his/her family members. The main purpose of the policy is to provide a death benefit to meet funeral expenses but also includes an investment account. The value of the investment account is paid in the event of maturity or surrender (after deducting a surrender penalty, if applicable). The investment account is credited with premiums received and investment returns. Deductions are made from the investment account to cover the cost of funeral benefits, expenses and commission.

The policyholder liability for annuities includes a mismatch and re-investment reserve. Its purpose is twofold:

> To ensure that the company has sufficient assets in the event that liabilities exceed the value of assets,

> To provide against reinvestment risk that arises as a result of the duration of the assets being shorter than the liabilities. The shorter term of the assets may result in future asset proceeds being re-invested on less favourable terms than were available at policy inception. The Company is exposed to financial risk if the investment returns on re-invested 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.

Investment Contract Liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities. Investment contract liabilities 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 is recognised in the income statement when earned.

Fair value adjustments are performed at each reporting date and are recognised in the income statement. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the statement of financial position date. The fund assets and liabilities used to determine the unit-prices at the statement of financial position 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 financial statements.

Non-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

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.

Classification of contracts

A distinction is made between investment contracts (which fall within the scope of IAS 39 Financial Instruments: Recognition and Measurement), investment contracts with discretionary participating features and insurance contracts (where the Financial Soundness Valuation (FSV) method continues to apply, subject to certain requirements specified in IFRS 4: Insurance Contracts). A contract is classified as insurance where the Company accepts significant insurance risk by agreeing with the policyholder to pay 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.

Insurance contracts with a discretionary participating feature (DPF):

DPF is 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 issuer; or
- the profit or loss of the company, fund or other entity that issues the contract.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

For life insurance contracts, the same accounting treatment is applied to contracts with and without DPF

Insurance contract liabilities with DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract.

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's 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's 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 25);
> 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 makes adjustments to 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 2010 and 31 December 2009

The Group monitors capital using a capital adequacy requirement. Capital adequacy implies the existence of a buffer against experience worse than assumed under the FSB'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 company complied with all externally imposed capital requirements. The provisions of the Botswana Insurance Industry Act require that 25% of the surplus arising in a year should be transferred to this reserve. This reserve is to be utilised at least once every five years to increase the paid up stated capital of the Company.

Capital includes shareholders equity and long-term debt. As at year end there was no long term debt.

	2010 P000	2009 P000
Shareholder's equity	1,405,847	1,296,847
capital adequacy requirement (CAR)	262,896	279,075
capital adequacy requirement (CAR) Cover (times)	7.1	6.2

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. Refer to the Corporate Governance Report on page 73 for further information on the responsibilities of the BIHL Board and its committees.

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.

BIHL Board
Responsible for the Group's risk management strategy and policies, as well as monitoring the effectiveness and disclosure thereof, in accordance with best practice

Audit, Actuarial and Risk committee
Assists the Board in fulfilling its responsibilities

Business Executive committees
Responsible as the Board's executive overseer to ensure that the businesses achieve optimal risk-adjusted returns

Risk Management
Develops Group risk management framework, policies and guidelines for approval by the Board, co-ordinates reporting responsibilities and improves risk management across the Group

Business (and sub-business) level risk management
Identifies and manages risks faced by the business

Business level management committees
Additional committees that may be established by a business to assist their Executive committees in certain areas of risk management

Business level Audit, Actuarial and Risk committees/forums
Assists the business level Board in fulfilling its responsibilities to the Board

A number of other risk monitoring mechanisms are operating within the Group as part of the overall risk management structure. The most important of these are illustrated in the following table.

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: 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

Financial Director: 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

Investment Committees: Determines and monitors appropriate investment strategies for policyholder solutions

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 to monitor the business' entire risk profile

Internal Audit: Assists the BIHL Board and management by monitoring the adequacy and effectiveness of risk management in businesses

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

Group risk policies and guidelines

All risks are managed in terms of the policies and guidelines of the Board and its committees. Some of the main policies are:

- The BIHL Group Strategic Risk Management (SRM) Policy;
- Group Risk Escalation Policy;
- Group Business Continuity Policy;
- Group Information and Information Technology (I & IT) Risk Management Policy; and
- Investment Cluster Credit Risk Policy and Strategy.

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 SRM Policy.

The aim of the Group Escalation Policy is to ensure that key risks and risk events in any business in the Group are reported to the appropriate governance level. The Group Business Continuity Policy ensures that effective vertical and horizontal recovery abilities, consistent with business priorities, exist across the Group, to deal with disasters and related contingencies. The BIHL Group Strategic Risk Management Policy is briefly summarised below:

BIHL Group Strategic Risk Management Policy

Definition

SRM is a high-level over-arching approach to ensure that:

- All risks which could jeopardise or enhance achievement of the Group's strategic goals are identified;

- Appropriate structures, policies, procedures and practices are in place to manage these risks;

- Sufficient organisational resources are applied to, and corporate culture is fully supportive of, the effective implementation of these structures, policies, procedures and practices;

- The organisation's risks are indeed being managed in accordance with the foregoing; and

- The impact of strategic decisions on the risk-adjusted return on Group Equity Value is considered by way of appropriate modelling techniques prior to such decisions being implemented.

Objective

The primary objective of SRM is to optimise the Group's risk-adjusted return on Group Equity Value.

Philosophy

SRM is achieved by:

- Applying a decentralised philosophy, in that the individual businesses are responsible for the identification of risks in their business and to apply appropriate risk management. Only significant risks are escalated to the BIHL Group level, in accordance with the BIHL Group Risk Escalation Policy (mentioned above). This policy guides the businesses to assess the impact of the risk (on a scale of insignificant to catastrophic), type of risk (on a scale of unlikely to already occurred/highly probable), and accordingly to determine the role players to whom the risk should be reported (from the Risk Officer of the business to the chairman of the BIHL Audit and Risk Committee).

- Implementing maximum loss limits, by using measures such as "value at risk", long-term solvency requirements, capital adequacy requirements and sensitivities on return on embedded value/value of new business; and

- Clearly defining and documenting the business's risk appetite, being the degree of uncertainty that a business is willing to accept in pursuit of its goals, and describing it both qualitatively and quantitatively.

  Risk is inherent in doing business, and includes all of the uncertain consequences of business activities that could prevent BIHL from achieving its strategic goals. BIHL's SRM process is aimed at managing three elements of risk:

- *Opportunity:* managing risk on the upside as an "offensive" function; focusing on actions taken by management to increase the probability of success and decrease the probability of failure.

- *Hazard:* managing risk on the downside as a "defensive" function; focusing on the prevention or mitigation of actions that can generate losses; and

> *Uncertainty:* managing the uncertainty associated with risk, focusing on achieving overall financial performance that falls within a defined acceptable range.

Process

Each business has a documented process that links into the business's normal management process and includes:

> Strategic organisational and risk management context:

> Strategic context (defining the business's strengths, weaknesses, opportunities and threats relative to its environment),

> Organisational context (understanding the business's goals, strategies, capabilities and values),

> Risk management context (setting of scope and boundaries),

> Developing risk evaluation criteria, defining a logical framework for risk identification, establishing a risk identification process, analysing the risks identified, evaluating the risks against established risk criteria, deciding on the appropriate action and communication, with the aim of continuous management and improvement.

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 back-up facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted on the basis of 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's 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 auditors are Ernst & Young Inc. The report of the independent auditors for the year under review is contained on page _ of this annual report. The external auditors provide an independent assessment of certain systems of internal financial control and express an independent opinion on the annual financial statements. Non-audit services rendered by the external auditors are strictly governed by a Group policy in this regard. A compulsory rotation of audit partners has also been implemented.

External audit

The Group's external auditors are Ernst & Young Inc. The report of the independent auditors for the year under review is contained on page 118 of this annual report. Non-audit services rendered by the external auditors 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

The "Group Information and Technology (IT) Risk Management Policy" is authorised by the Group Risk Forum and the Group IT Governance Committee and ratified by the Group Executive Committee. It stipulates the role of the Information and IT Risk manager that each business is responsible for appointing. Furthermore, it provides a framework of IT risk

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of signifi cart accounting policies (continued)

management, the methods of reporting, assessment and action, appropriate documentation and management of all risk-related IT incidents that have occurred, timing of communication and liaison with other functions in the Group.

Reliance on and the continuous availability of IT systems and processes are inherent to the nature of the Group's operations. An important objective of the Group Information and Technology Risk Management Policy is accordingly to ensure that the Group's IT resources and platforms are maintained and developed in line with changes in the Group's businesses environment and requirements, and that proper back-up processes and disaster recovery measures are in place.

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 a number of facts and circumstances and are of the opinion that adequate resources exist to continue business in the foreseeable future and that BIHL will remain a going concern in the year ahead. The Board's statement to this effect is also contained in the statement on the responsibility of directors 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' 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 BIHL 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 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 advisers, 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 experience is monitored to ensure that negative experience is identified on a timely basis and corrective action taken. The business's reserving policy is based on actual experience to ensure that adequate provision is made for lapses.

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's 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 ensures that the businesses' 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 businesses' 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's long-term insurance operations are subject to the general operational risks described in the section above, 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 about the ultimate amount of net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract and (b) timing risk, defined as "uncertainty about the timing of the receipt and payment of those cash flows.

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 individual and manage concentration of risks, the claims handling policy and adequate pricing and reserving. Half yearly actuarial valuations are also performed to assist in the timely identification of experience variances.

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of signifi cart accounting policies (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;

> Specific testing for HIV/AIDS is carried out in all cases where the applications for risk cover exceed a set limit. Product pricing and reserving policies also include specific allowance for the risk of HIV/AIDS;

> 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 5 to 15 years;

> Risk profits are determined monthly; and

> Regular investigations into mortality and morbidity experience are conducted to ensure that corrective action, for example re-rating of premiums, is taken where necessary.

> Expenses are continuously monitored and managed through the business's budgeting process

Reinsurance

All risk exposures in excess of specified monetary limits are reinsured. Credit risk in respect of reinsurance is managed by limiting the business's exposure to companies with high international or similar credit ratings.

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 are closely matched. The impact of a 1% parallel movement is shown below:

	December 2010	December 2009
The mean duration of non-participating annuity liabilities is:	8.04 years	8.86 years
The mean duration for the supporting assets is:	7.60 years	8.38 years

The loss from a 1% parallel fall in interest rates is approximately P7.5 million (2009: 13.8 million)

The table below indicates the impact of changes in assumptions

Policy liabilities in respect of Insurance contracts

2010 P'000	Base value	Investment returns	Expenses	Expense inflation	Lapse and surrender rates	Mortality and morbidity rates
		-1%	-10%	+1%	-10%	-10%
Individual Life Business	1,532,533	1,534,532	1,537,615	1,535,659	1,539,863	1,542,800
Annuity Business	2,138,873	2,251,223	2,141,830	2,142,159	2,138,873	2,153,868
Group Life Business	285,722	285,722	288,579	286,151	285,722	304,293
Total	3,957,128	4,071,477	3,968,024	3,963,970	3,964,457	4,000,961

2009 P'000	Base value	Investment returns	Expenses	Expense inflation	Lapse and surrender rates	Mortality and morbidity rates
		-1%	-10%	+1%	-10%	-10%
Individual Life Business	1,449,773	1,454,455	1,454,580	1,452,730	1,456,706	1,459,485
Annuity Business	1,959,004	2,061,906	1,962,307	1,962,014	1,959,004	1,972,737
Group Life Business	224,234	224,234	226,060	224,509	224,234	236,100
Total	3,633,011	,740,595	3,642,947	3,639,253	3,639,944	3,668,322

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 insurances risks

2010

	Effect on profit before tax P'million
Base Assumption	656.3
Increase risk discount rate by 1,0% to 14%	633.0
Decrease risk discount rate by 1,0% to 12%	682.5
Investment return (and inflation) decreased by 1,0%, coupled with a 1,0% decrease in risk discount rate to 12%, and with bonus rates changing commensurately	679.9
Maintenance unit expenses (excluding investment expenses) decrease by 10%	674.4
Discontinuance rates decrease by 10%	689.8
Mortality and morbidity decreased by 5% for assurances, coupled with a 5% decrease in mortality for annuities	655.6
Equity assets fall by 10%	625.2

Basis of Presentation and Accounting Policies (continued)

For the year ended 31 December 2010

Summary of significant accounting policies (continued)

2009

	Effect on profit before tax P'million
Base Assumption	612.2
Increase risk discount rate by 1,0% to 14.5%	592.7
Decrease risk discount rate by 1,0% to 12.5%	631.7
Investment return (and inflation) decreased by 1,0%, coupled with a 1,0% decrease in risk discount rate to 12.5%, and with bonus rates changing commensurately	662.0
Maintenance unit expenses (excluding investment expenses) decrease by 10%	624.5
Discontinuance rates decrease by 10%	625.9
Mortality and morbidity decreased by 5% for assurances, coupled with a 5% decrease in mortality for annuities	619.6
Equity assets fall by 10%	591.4

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 stochastic 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 within an acceptable confidence level. Capital adequacy requirements were covered as indicated by the Companies' shareholders' fund, (as determined according to regulations and the guidelines issued by the Actuarial Society of South Africa). The CAR is covered 10.45 times (31 December 2009: 9.04 times).

Concentration of insurance risk

Long-term insurance risks do not vary significantly in relation to the location of the risk insured. Concentration by amounts insured could however increase the relative portfolio risk. The tables below provide an analysis of the concentration of insured benefits per individual life insured (excluding annuity payments) as well as per annuity payable per annum per life assured, expressed as percentages of the relevant long-term policy liabilities:

Non-participating annuity payable per annum per life insured

Benefits insured per individual life

			Before reinsurance		After reinsurance	
	2010 No. of lives	2009 No. of lives	2010 Pula	2009 Pula	2010 Pula	2009 Pula
0 - 500	623,059	590,182	6,952,981	6,880,689	6,257,683	6,192,620
501 - 1 000	316	216	192,535	150,702	31,600	26,500
1 001 - 5 000	214	154	296,644	192,498	21,400	16,200
5 001 - 8 000	1	1	9,193	14,836	100	300
>8 000	1	1	13,913	14,575	100	200
	623,591	590,554	7,465,266	7,253,300	6,310,883	6,235,820

Non-participating annuity payable per annum per life insured

	2010 No. of lives	2009 No. of lives	2010 P'000	2009 P'000
0-20	2,006	1,974	19,866	18,868
21-40	1,069	940	30,918	27,203
41-60	727	636	35,694	31,214
61-80	427	358	29,752	24,877
81-100	323	235	28,846	20,959
>100	438	352	65,518	53,243

Annuity business is not reinsured.

Notes to the Financial Statements

For the year ended 31 December 2010

1 Segmental analysis

Basis of segmentation

For management purposes, the group is organised into two principal business areas based on their products and services and these make up the two reportable operating segments as follows:

The life insurance segment which provides life insurance services to its customers through Botswana Life Insurance Limited, a subsidiary of the Group.

The asset management segment which provides asset management services to its customers through Botswana Insurance Fund Management Limited, 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 operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Inter-segment transactions that occurred during 2010 and 2009 between business segments are set on an arm's length basis in a manner similar to transaction with third parties. Segmental income, segment expense and segment results will then include those transfers between business segments, which will then be eliminated on consolidation.

Primary segment - Business segments

At 31 December 2010, the Group's operating businesses are organised and managed separately according to the nature of the products and services offered, with each segment representing a strategic business unit that offers varying products and serves different markets. This is the basis on which the Group reports its primary segment information. The Group is therefore organised into two principal areas of business – Life Insurance and Asset Management Services.

Secondary segment - Geographical segments

The Group under its 100% owned subsidiary, BIFM Holdings, has a 70% subsidiary in African Life Financial Services (Zambia) Limited. For management purposes, the Zambia operations are reported under BIFM Holdings. The Group therefore only has significant operations in Botswana hence a geographical segment analysis has not been provided.

The amounts used for Segment reporting are measured using IFRS principles.

Other segments

The source of revenue for segments included in other segments is short-term insurance and interest on policy loans

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

1 Segmental analysis (continued)

	Life Business		Asset Management	
	31 Dec 2010 P'000	31 Dec 2009 P'000	31 Dec 2010 P'000	31 Dec 2009 P'000
Segment information by products and services				
Premium revenue	1,603,675	1,253,413	-	-
Fee revenue				
- Internal	-	-	25,533	22,243
- External	-	-	102,481	98,380
Investment income	301,272	255,770	166,348	213,754
Fair value gains and losses	(179,458)	429,735	97,792	732,957
Total net income	1,725,489	1,938,918	392,154	1,067,334
Profit for the year after tax	247,564	229,228	119,761	70,181
Depreciation	3,670	3,630	1,267	512
Amortisation	1,113	1,152	-	-
Share-based expense	12,984	14,306	-	1,383
Income tax expense	46,083	14,530	21,422	20,249
Total Assets	5,144,615	4,582,228	9,829,495	9,520,078
Total Liabilities	4,242,318	3,834,568	9,518,851	9,184,238
Capital expenditure	18,437	5,814	-	128
Associates and joint venture				
Share of profit of associates	-	-	1,740	1,872
investment in associates	-	-	12,390	34,446

Other		Inter Group Transactions		Consolidated Total	
31 Dec 2010 P'000	31 Dec 2009 P'000	31 Dec 2010 P'000	31 Dec 2009 P'000	Dec 31 2010 P'000	31 Dec 2009 P'000
16,838	-	-	-	1,620,513	1,253,413
-	-	-	-	25,533	22,243
9,140	-	-	-	111,621	98,380
245,056	423,283	(242,481)	(345,497)	470,195	547,310
-	(61,878)	(99,125)	(165,306)	(180,791)	935,508
271,034	361,405	(341,606)	(510,803)	2,047,071	2,856,854
198,412	63,134	(163,798)	(105,327)	401,939	257,216
160	-	-	-	5,097	4,142
-	-	-	-	1,113	1,152
2,340	-	(973)	-	14,351	15,689
34,415	(63,134)	(32,464)	-	69,456	19,544
845,448	-	(3,651,543)	(2,719,681)	12,168,015	11,382,625
435,144	-	(3,434,145)	(2,933,031)	10,762,169	10,085,775
42,360	-	-	-	60,797	5,942
70,477	-	-	24,949	72,217	26,821
488,752	-	-	286,608	501,142	321,054

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

2 Property and equipment

Group

	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improvements P'000	Land and buildings P'000	Total P'000
2010						
Cost						
At 1 January 2010	17,619	18,579	5,303	10,157	3,791	55,449
Additions	940	1,826	-	-	-	2,766
Disposals	(554)	(570)	-	-	-	(1,124)
At 31 December 2010	18,005	19,835	5,303	10,157	3,791	57,091
Accumulated depreciation						
At 1 January 2010	12,918	9,339	4,711	9,008	986	36,962
Current year charge	1,367	2,464	-	281	986	5,098
Disposals	(256)	(567)	-	-	-	(823)
At 31 December 2010	14,029	11,236	4,711	9,289	1,972	41,237
Carrying amount						
At 1 January 2010	4,701	9,240	592	1,149	2,805	18,487
At 31 December 2010	3,976	8,599	592	868	1,819	15,854
2009						
Cost						
At 1 January 2009	13,924	16,921	5,078	10,157	3,630	49,710
Additions	2,147	1,658	225	-	161	4,191
Foreign currency translation differences	1,548	-	-	-	-	1,548
At 31 December 2009	17,619	18,579	5,303	10,157	3,791	55,449
Accumulated de preciation						
At 1 January 2009	11,329	7,943	4,540	9,008	-	32,820
Current year charge	1,589	1,396	171	-	986	4,142
At 31 December 2009	12,918	9,339	4,711	9,008	986	36,962
Carrying a mount						
At 1 January 2009	2,595	8,978	538	1,149	3,630	16,890
At 31 December 2009	4,701	9,240	592	1,149	2,805	18,487

Company

2010	Furniture and fittings P'000	Total P'000
Cost		
At 1 January 2010	-	-
Additions	881	881
At 31 December 2010	881	881
Accumulated depreciation		
At 1 January 2010	-	-
Current year charge	-	-
At 31 December 2010	-	-
Carrying amount		
At 1 January 2010	-	-
At 31 December 2010	881	881

3 Intangible assets

	Goodwill P'000	Computer software P'000	Total P'000
2010			
Cost			
At 1 January 2010	79,446	16,117	95,563
Additions	42,360	16,913	59,273
At 31 December 2010	121,806	33,030	154,836
Accumulated amortisation and impairment			
At 1 January 2010	-	12,941	12,941
Current year amortisation	-	1,113	1,113
At 31 December 2010	-	14,054	14,054
Carrying amount			
At 1 January 2010	79,446	3,176	82,622
At 31 December 2010	121,806	18,976	140,782

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

3 Intangible assets (continued)

	Goodwill P'000	Computer software P'000	Total P'000
2009			
Cost			
At 1 January 2009	77,245	14,364	91,609
Additions	-	1,753	1,753
Foreign currency translation differences	2,201	-	2,201
At 31 December 2009	79,446	16,117	95,563
Accumulated amortisation			
At 1 January 2009	-	11,788	11,788
Current year amortisation	-	1,153	1,153
At 31 December 2009	-	12,941	12,941
Carrying amount			
At 1 January 2009	77,245	2,576	79,821
At 31 December 2009	79,446	3,176	82,622

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to two cash-generating units which are equivalent to the two operating segments of the Group; Non life insurance and asset management for impairment testing as follows:

Asset management business and Non-life insurance business

	2010 P'000	2009 P'000
Carrying amount of goodwill		
Asset management business	79,446	79,446
Non-Life insurance	42,360	-
Total	121,806	79,446

The recoverable amount of the asset management business and non-life insurance business has been determined using fair value less costs to sell at the year end . For assets which have publicly quoted prices the related market prices have been used. For assets without quoted market prices such as bonds, the discounted cashflow method has been used to determine fair values and the assumptions have been disclosed in note 4.

4 Investments

Fair values

At 31 December 2010 and 31 December 2009, the carrying value of financial instruments reported in the financial statements approximate their value.

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Investments designated as fair value through profit or loss				
At the beginning of the year	9,189,297	8,933,418	-	-
Purchase/(Sale) of investments	57,685	(605,847)	-	-
Revaluations	447,508	861,725	-	-
At the end of the year	9,694,490	9,189,297	-	-

4.1 Bond, notes,policy loans and similar securities

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Designated as at fair value through profit or loss				
Bonds (Government, public authority, listed and unlisted corporates)	3,361,182	2,539,745	-	-
Money market instruments	11,489	6,264	-	-
Policy loans and other loan advances (Note 4.3)	224,448	304,730	-	-
	3,597,119	2,850,739	-	-

The bonds are made up of both listed and unlisted bonds. Listed bonds have fixed interest rates which range from 10.17% to 12%. For unlisted bonds, interest rates are fixed, with coupon rates falling between 10% and 11.25% annually, calculated and compounded on a quarterly basis. Bond repayment terms range between 10 and 27 years for all listed and unlisted bonds.

Money markets constitutes funds invested in call accounts. The average market interest rate for money market instruments was 5.34% for 2010 (2009: 9.48%). All money market instruments are of a short term nature, being exercisable within one year of year end.

4.2 Equity investments

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Listed in Botswana	1,182,453	1,109,905	-	-
Listed foreign markets	4,903,716	5,131,607	-	-
Unlisted	11,201	97,046	-	-
	6,097,371	6,338,558	-	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

4 Investments (continued)

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Sectoral analysis for bonds, money market and equity instruments				
Consumer discretionary	100,761	608,555	-	-
Consumer staples	-	90,048	-	-
Industrials	84,419	53,799	-	-
Financials	3,629,011	2,150,131	-	-
Information technology	8,932	78,020	-	-
Energy	32,575	19,388	-	-
Education	56,616	61,412	-	-
Property	188,788	78,280	-	-
Tourism	15,321	23,583	-	-
Offshore foreign equities	4,903,716	5,131,607	-	-
Government	449,900	589,744	-	-
Other	224,448	304,730	-	-
	9,694,490	9,189,297	-	-

Listed financial assets:

The last traded bid prices at the year end have been used to value these investments.

Unlisted financial assets:

These investments have been valued based on an independent valuation done by third parties. The fair value of unlisted financial assets have been calculated by discounting expected future cash flows at the risk adjusted interest rates applicable to each financial asset.

The valuation 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 credit spread per instrument. Credit spread is the risk premium attributable to an unlisted instrument due to the factors arising from it not being traded on the open market. The average credit spread for the unlisted bonds and notes held by the Group was determined as 110 basis points in current year (2009: 110 basis points) on the basis of the risk surrounding the operations of the Group. The credit spread has been used as a risk adjustment to the interest rates applicable to each financial asset.

4.3 Policy loans and other loan advances

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Opening balance	304,730	341,372	-	-
New loans	75,002	38,459	-	-
Interest charges	34,892	27,085	-	-
Repayments	(161,991)	(87,505)	-	-
Impairment	(1,530)	-	-	-
Induplum Interest	(9,206)	-	-	-
Fair value movement	(17,449)	(14,681)	-	-
	224,448	304,730	-	-
Loans secured against the company's insurance policies	157,886	233,574	-	-
Other loans	66,562	71,156	-	-

Policy loans

These loans are secured against the investment assets on insurance contracts and have repayment terms of approximately 4 years otherwise the loans are recouped against the surrender value of the investment policy. Interest rate is variable depending on Botswana local bank prime lending rates. The interest rate at December 2010 was 21.5% (2009: 18%)

As at the year end, an amount P 1,5 million (2009:NIL) was charged to the income statement as impairment. All policy loans are secured against investment assets on insurance contracts and limits to the loan amount that can be taken is built into policy loan contract.

Other loans

The loans are advances to Public Private Partneships which are partneships between private companies and the government of Botswana for construction projects. The interest rate on the loans are based on the prime lending rates in Botswana and terms of the loans range from 10 years to 17 years. As at year end the prime rate was 11.5% 2009 (11.5%)

The carrying amounts disclosed above are the same as the fair values at year end.

4.4 Investment property

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
At beginning of the year	137,719	146,612	-	-
Purchases of investments	84,923	17,762	-	-
Disposals	-	(1,920)	-	-
Revaluations	9,886	(24,735)	-	-
	232,528	137,719	-	-

Investment properties are stated at fair value which has been determined based on valuations performed by Knight Frank; an accredited independent valuer, as at 31 December 2010 and 31 December 2009 for the current and previous years respectively. Knight Frank is an industry specialist in valuing these types of investment properties.

The fair value represents the amount at which assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation, in accordance with International Assets Valuation Committee.

Direct operating expenses are borne by the tenants in these properties. 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, maintanace or enhancements.

The valuation has 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. The valuation for gross replacement cost or re-instatement cost value has been made as at 31 December 2010 and assumes total replacement of building on the date of valuation at costs applicable at that time, based on the information provided from our enquiries.

Valuations and appraisals will be carried out in accordance with the RICS Appraisal and Valuation Standards ("The Red Book"), by valuers who conform to its rrequirements , and with regard to relevant statues or regulations

Properties are valued individually and valuations and appraisals are carried out on a basis appropriate to the purpose for which they are intended and accordance with the relevant definitions, commentary and assumptions contained in The Red Book

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

4.5 Interest in associates / joint ventures and subsidiaries (subsidiaries at company level)

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Carrying amounts at beginning of the period	321,054	34,971	153,467	153,467
Share of results after tax	72,217	27,727	-	-
Dividend received	(7,737)	(907)	-	-
Reclassification of interest in associate	-	190,818	-	-
Investment in Employee Share Scheme Trust	-	-	103,174	-
Acquisition of interest in Letshego and FSG	115,608	68,445	56,668	-
Carrying amount at the end of the year	501,142	321,054	313,309	153,467

-

Investment in associates at 31 December 2010 and 31 December 2009 includes goodwill of P901,000 (2009:P901,000). There was no impairment loss during the period.

The Group, through its 100% owned subsidiary BIFM, has invested in various associates being Plot 21, Bongwe , Re mmogo. All these three are Public Private Partnerships management companies. The table below shows the Group's percentage shareholding and total summarised financial interest.

Acquisition of additional interest in Letshego

During the 2010 financial year, the Group acquired additional voting shares of Letshego Holdings Limited, increasing its ownership to 16.5% (2009: 13.6%)

	KhumoPAM	Gaborone Sun	FSG	Plot 21 Investments	Bongwe	Re mmogo	Letshego	Total
As at 31 Dec 2010								
Carrying amount (P'000)	943	23,608	26,229	3,536	7,911	-	438,915	501,142
Interest in issued share capital Shareholders' fund	50%	20%	29%	33%	33%	33%	16.50%	-
Share of earnings after tax for current year (P'000)	257	-	2,980	416	1,067	-	67,497	72,217
Distributions received Shareholders' fund (P'000)	-	-	(1,405)	-	-	-	(6,332)	(7,737)
Total assets and liabilities of associated company								
Non-current assets (P'000)	344	22,504	110,982	62,990	166,701	-	55,654	419,175
Current assets (P'000)	5,500	9,926	24,248	2,337	29,906	-	2,314,813	2,386,730
Non-current liabilities (P'000)	(35)	-	(5,503)	(58,236)	(174,196)	-	-	(237,970)
Current liabilities (P'000)	(1,414)	(81)	(19,673)	(1,745)	(835)	-	(635,163)	(658,911)
Total Revenue of associate company (P'000)	10,264	6,523	36,655	2,196	7,742	-	773,371	836,751
Earnings attributable to shareholders (P'000)	2,842	1,551	10,403	1,235	1,897	-	420,618	438,546
As at 31 Dec 2009								
Carrying amount (P'000)	943	23,608	12,234	1,984	7,441	-	274,844	321,054
Interest in issued share capital Shareholders' fund	50%	20%	24%	33%	33%	33%	14%	-
Share of earnings after tax for current year (P'000)	1,404	-	2,297	-	-	-	24,026	27,727
Distributions received Shareholders' fund (P'000)	-	-	(907)	-	-	-	-	(907)
Total assets and liabilities of associated company								
Non-current assets (P'000)	324	19,145	102,984	64,470	176,860	-	58,159	421,942
Current assets (P'000)	5,876	13,373	24,800	3,180	27,650	-	1,771,035	1,845,914
Non-current liabilities (P'000)	(19)	-	(5,815)	(61,766)	(200,091)	-	-	(267,690)
Current liabilities (P'000)	(4,628)	(85)	(20,768)	(1,394)	(971)	-	(529,089)	(556,935)
Total Revenue of associate company (P'000)	10,137	2,458	33,223	1,245	6,344	-	646,378	699,785
Earnings attributable to shareholders (P'000)	1,886	1,912	9,754	187	4,119	-	312,827	330,685

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

5 Trade and other receivables

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Outstanding premiums	60,130	42,774	-	-
Non-insurance contract amounts receivable	96,020	113,680	84	102,168
Due from reinsurers	20,744	18,418	-	-
- opening balance	18,418	12,888	-	-
- premiums paid	(12,355)	(5,699)	-	-
- claim recoveries	14,681	11,229	-	-
	176,894	174,872	84	102,168

Trade receivables are non-interest bearing and are generally on 30 days terms.

The aging analysis of these receivables is as analysed below:				
Neither past due nor impaired	116,764	145,774	84	102,168
Past due but not impaired:	60,130	29,098	-	-
Less than 30 days	17,943	15,366	-	-
30 - 60 days	14,753	8,462	-	-
60 - 90 days	27,434	5,270	-	-
	176,894	174,872	84	102,168

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Impairment movement

As at 31December 2010 outstanding premiums with a nominal value of P69,260 (2009: 175,707) were impaired and fully provided for. Movements in the provision for impairment of outstanding premiums were as follows:

At 1 January	3,451	3,276	3,101	-
(Utilised)/Charge for the year	(69)	175	175	-
At 31 December	3,382	3,451	3,276	-

6 Stated Capital

	Group			Company		
	2010	2009	2008	2010	2009	2008
Issued and fully paid						
281,070,652 ordinary shares	130,821	130,821	130,821	130,821	130,821	130,821
As previously stated	-	40,601	40,601	-	40,601	40,601
Restatement	-	90,220	90,220	-	90,220	90,220

The opening balances were restated to reflect shares issued to the employee share scheme but not accounted for at the end of 2007.

7 Non-distributable reserves

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Foreign currency translation reserve				
Opening balance	16,365	22,253	-	-
Movement for the year	(12,356)	(5,888)	-	-
Balance at end of year	4,009	16,365	-	-
Consolidation reserve				
Opening balance	(100,324)	(75,659)	-	-
Transfer from retained earnings	(6,197)	(24,665)	-	-
Cost of shares acquired	(496)	-	-	-
Balance at end of year	(107,017)	(100,324)	-	-
Number of shares held at 31 December:	9,955	9,120	-	-
	9,955	9,120	-	-
Market price per share (Pula)	10.75	11.00	-	-
Treasury shares				
Number of shares held at 31 December:				
Shareholders' fund 000s	1,312	2,013	-	-
Opening balance	(153,005)	(56,861)	-	-
Cost of treasury shares acquired/(disposed of)	(65)	302	-	-
Restatement	-	(96,446)	-	-
Exercised employee shares	25,055	-	-	-
	(128,015)	(153,005)	-	-
Share based payment reserve				
Opening balance	48,020	32,331	-	-
Transfer from profit for the year	9,105	15,689	2,340	-
	57,125	48,020	2,340	-
Statutory capital reserve				
Opening balance	424,840	355,116	9,762	9,762
Transfer from profit for the year	69,328	69,724	-	-
	494,168	424,840	9,762	9,762
Total non-distributable reserves	320,270	235,896	12,102	9,762

In accordance with the requirements of section 9 of the Botswana Insurance Industry Act (Chapter 46:01), 25% of the annual after-tax income of those subsidiaries registered under the Act is transferred to the Statutory Capital Reserve. This reserve is utilised at least once every five years to increase the paid up share capital of the respective subsidiary companies. The reserve was utilised as at 31 March 2004.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

8 PolicyholderL iabilities

8.1 Analysis of movement in policy liabilities

	2010			2009		
	Insurance contracts P'000	Investment contracts P'000	Total P'000	Insurance contracts P'000	Investment contracts P'000	Total P'000
Income	1,711,693	544,346	2,256,039	1,900,286	1,541,072	3,441,358
Premium income	1,620,513	-	1,620,513	1,253,413	-	1,253,413
Investment return after tax	91,180	544,346	635,526	646,873	1,541,072	2,187,945
Outflow	(1,387,577)	(319,290)	(1,706,867)	(1,084,956)	(413,193)	(1,498,149)
Policy benefits	(302,881)	(284,576)	(587,457)	(482,654)	(292,570)	(775,224)
Retirement funds terminations	-	38,512	38,512	-	-	-
Fees, risk premiums and other payments to shareholders' fund	(1,084,696)	(73,226)	(1,157,922)	(602,302)	(120,623)	(722,925)
Net movement for the year	324,116	225,056	549,172	815,330	1,127,879	1,943,209
Balance at beginning of the year	3,633,013	6,129,217	9,762,230	2,817,683	5,001,338	7,819,021
Balance at end of the year	3,957,129	6,354,273	10,311,402	3,633,013	6,129,217	9,762,230

8.2 Analysis ofpr emium income

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Individual business	1,146,405	923,508	-	-
Recurring	669,930	597,924	-	-
Single	476,475	325,584	-	-
Employee benefitsb usiness	474,108	329,905	-	-
Recurring	99,678	84,653	-	-
Single	374,430	245,252	-	-
Total premium income	1,620,513	1,253,413	-	-

8.3 Composition of policy liabilities

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Individual business	10,263,403	9,579,683	-	-
Linked and market-related liabilities	7,775,422	7,488,634	-	-
Stable bonus fund	53,480	43,951	-	-
Reversionary bonus policies	77,003	138,487	-	-
Non-participating annuities	2,091,934	1,908,300	-	-
Other non-participating liabilities	265,564	311	-	-
Employee benefitsb usiness	47,999	182,547	-	-
Other non-participating liabilities	47,999	182,547	-	-
Total policy liabilities	10,311,402	9,762,230	-	-

8.4 Maturity analysis of policy holder liabilities

P 000	On demand	< 1 year	1-5 years	>5 years	open ended	Total
2010						
Linked and market-related liabilities	6,354,273	83,794	324,998	1,001,168	11,189	7,775,422
Stable bonus	-	849	24,934	27,697	-	53,480
Reversionary bonus policies	-	367	10,789	11,984	53,863	77,003
Non-participating annuities	-	1,613	35,833	71,282	1,983,207	2,091,934
Participating annuities	-	37	822	1,636	45,504	47,999
Other non-participating liabilities	-	265,170	394	-	-	265,564
Total investment policies	6,354,273	351,830	397,770	1,113,766	2,093,763	10,311,402
2009						
Linked and market-related liabilities	6,129,217	80,154	310,881	957,680	10,702	
7,488,634						
Stable bonus	-	698	20,491	22,762	-	43,951
Reversionary bonus policies	-	732	21,490	23,872	92,393	138,487
Non-participating annuities	-	1,471	32,688	65,025	1,809,116	1,908,300
Participating annuities	-	-	-	-	-	-
Other non-participating liabilities	-	182,702	156	-	-	182,858
Total investment policies	6,129,217	265,757	385,706	1,069,339	1,912,211	9,762,230

8.5 Policy liabilities include the following:

HIV/Aids reserve	54,750	50,218
Other pandemics		
Increase / (Reduction) in earnings caused by using a retrospective HIV/Aids valuation basis instead of a prospective valuation basis		
Asset mismatch reserve	16,560	19,727

Refer to the report of the Independent Actuary for the methods and assumptions used in determining liability valuations.

8.6 Reconcilation of policyholder liabilities

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Insurance contracts				
Opening balance	3,633,013	2,869,511	2,683,973	-
Transfer from income statement	324,116	793,203	155,837	-
Other transfers	-	(29,701)	29,701	-
Closing balance	3,957,129	3,633,013	2,869,511	-
Financial Soundness Valuation (FSV)	3,842,380	3,613,969	2,756,789	-
Unearned premium reserve (UPR)	89,654	10,783	89,654	-
Annuity mismatch and re-investment reserve	16,560	7,391	19,727	-
Claims incurred but not yet reported (IBNR) reserve	8,535	870	3,341	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

8 Policyholder Liabilities (continued)

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Investment contracts				
Balance at the beginning of the year	6,129,217	5,001,338	-	-
Pension and investment contributions	-	-	-	-
Net investment return	544,346	1,541,072	-	-
Benefits paid and withdrawals	(319,290)	(413,193)	-	-
Balance at end of the period	6,354,273	6,129,217	-	-
Total policyholder liabilities	10,311,402	9,762,231	-	-
Off balance sheet segregated funds	4,894,159	4,574,544	-	-

Segregated funds are excluded from investments and liabilities under investment management contracts on the balance sheet.

8.7 Reinsurance Assets

Balance at the beginning of the year	41,688	51,828	-	-
Movement in reinsurer's share of insurance contract liabilities	(13,279)	(10,140)	-	-
Balance at end of the year	28,409	41,688	-	-

9 Non -controlling interest

Balance at beginning of the year	35,042	31,095	-	-
Share of profit	9,933	10,370	-	-
Dividend payment	(8,660)	(3,141)	-	-
Currency translation difference	(4,727)	(3,282)	-	-
Balance at end of the year	31,588	35,042	-	-

10 Deferred tax

Deferred tax included in the balance sheet and changes recorded in the income tax expense are as follows:

Group

	Deferred tax asset 2010 P'000	Deferred tax liability 2010 P'000	Income statement 2010 P'000	Deferred tax asset 2009 P'000	Deferred tax liability 2009 P'000	Income statement 2009 P'000
Balance at the beginning of the year	960	(21,090)	-	3,030	(49,759)	-
Charge to the income statement	728	2,040	2,768	(2,070)	28,669	26,600
Balance at end of the year	1,688	(19,050)	-	961	(21,090)	-
Representing:						
Accelerated depreciation for tax purposes	698	(1,367)	725	(554)	(841)	(3,172)
Unrealised gains on shareholders' investments	990	(17,683)	2,043	1,514	(20,249)	29,772

There were no temporary differences associated with investment in subsidiaries, associates and interest in joint ventures for which deferred tax liabilities have not been recognised.

11 Trade and other payables

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Trade payables				
Insurance claims payable	147,478	83,247	-	-
Premiums received in advance	68,617	58,409	-	-
Intermediary retention balance	38,538	38,402	-	-
Reassurance payable	11,039	6,921	-	-
- opening balance	6,921	14,542	-	-
- premiums due	-	-	-	-
- claim recoveries	4,118	(7,621)	-	-
Other payables				
Other accounts payable	133,521	99,528	23,320	13,245
	399,193	286,506	23,320	13,245

Terms and conditions of the above financial liabilities are:

Trade payables are non-interest bearing insurance related liability and their terms and conditions are as follows.

- Insurance claims and Premiums received in advance are settled within 30 days
- Reassurance payable are settled within 90 days
- Intermediary retention balances are amounts held on behalf of brokers and agents and are released on the aniversary of the policy.

Other payables are non-interest bearing and relate to administration liabilyties and have an average term of 90 days.

12 Premium revenue

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Individual life	1,146,402	928,906	-	-
Gross premium	1,150,386	933,101	-	-
- Recurring premium	673,911	607,517	-	-
- Single	476,475	325,584	-	-
Premium ceded to reinsurers	(3,984)	(4,195)	-	-
Group and employee benefits	474,111	324,507	-	-
Gross premium	494,235	343,619	-	-
- Recurring premium	99,678	97,328	-	-
- Single	394,557	246,291	-	-
Premium ceded to reinsurers	(20,124)	(19,112)	-	-
	1,620,513	1,253,413	-	-

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

13.1 Investment income

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Shareholders' investment income				
(i) shareholder				
Interest income in financial assets at fair value through profit or loss	37,449	35,115	400	458
Rental income on investment properties	2,556	2,841	-	-
Other income	24,969	1,032	41	-
Dividends	12,944	23,384	216,424	412,824
Investment management fees	(4,661)	(4,975)	-	-
	73,257	57,397	216,865	413,282
Policyholders' investment income				
(i) policyholder insurance contracts				
Interest income in financial assets at fair value through profit or loss	246,238	204,551	-	-
Rental income on investment properties	5,274	6,416	-	-
Dividends	24,588	26,115	-	-
Investment management fees	(20,982)	(20,489)	-	-
	255,118	216,593	-	-
(ii) policyholder investment contracts				
Interest income in financial assets at fair value through profit or loss	47,478	127,690	-	-
Rental income on investment properties	24,559	16,761	-	-
Dividends	69,779	61,544	-	-
	141,816	205,995	-	-
Total Policyholder's investment income	396,934	422,588	-	-
Total Investment income	470,191	479,985	216,865	413,282

13.2 Net (losses)/gains from financial assets held at fair value through profit or loss

Shareholders' net gain from financial assets held at fair value through profit or loss

(i) shareholder				
Realised fair value surpluses on investments	(2,200)	8,910	-	-
Foreign exchange (losses) gains	(16,059)	(166,697)	-	-
Unrealised fair value surpluses/(losses) on investments	36,244	107,171	-	-
Less: treasury share adjustment	-	(21,796)	-	-
	17,985	(72,412)	-	-

13.2 Net (losses)/gains from financial assets held at fair value through profit or loss (continued)

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Policyholders' net gain from financial assets held at fair value through profit or loss				
(i) insurance contracts				
Realised fair value surpluses/(losses) on investments	(124,398)	591,878	-	-
Foreign exchange (losses)/ gains	(65,231)	(161,598)	-	-
	(189,629)	430,280	-	-
(ii) investment contracts				
Unrealised fair value surpluses (losses) on investments	(9,141)	644,967	-	-
	(9,141)	644,967	-	-
Total Policyholder net gains (losses) from financial assets held at fair value through profit or loss	(198,770)	1,075,247	-	-
Total net gains (losses) from financial assets held at fair value through profit or loss	(180,785)	1,002,835	-	-

All financial investments are designated at fair value through profit or loss on initial recognition

14 Net insurance claims and benefits

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Individual life				
Death and disability claims	91,710	73,366	-	-
Maturity claims	108,579	89,574	-	-
Policy surrenders	120,308	91,938	-	-
Annuities	199,188	176,743	-	-
Reinsurance share on death and disability claims	(2,972)	962	-	-
Total individual life	516,813	432,583	-	-
Group and employee benefits				
Death and disability claims	216,581	123,360	-	-
Reinsurance share on death and disability claims	(20,870)	(31,600)	-	-
Total group and employee benefits	195,711	91,760	-	-
Total	712,524	524,343	-	-

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Notes to the Financial Statements (continued)

For the year ended 31 December 2010

15 Administration expenses include:

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Auditors' remuneration				
- audit fee current period	3,307	3,225	397	304
- other services	1,328	605	-	-
Depreciation on property, plant and equipment (note 2)	5,098	4,142	-	-
Amortisation of computer software (note 3)	1,113	1,152	-	-
Directors' fees				
- for services as directors	2,739	2,267	2,739	2,052
- for managerial services	6,057	5,218	-	-
- pension contribution	443	698	309	-
Operating lease rentals	10,516	4,917	-	-
Staff costs				
Salaries and wages for administration staff	103,656	65,376	4,364	524
Pension costs	8,234	8,166	1,846	-
Medical aid	1,827	1,561	-	-
Share based payment	9,105	15,690	-	-
- for managers	2,340	4,903	2,340	-
- for staff	6,765	10,787	-	-
Total staff costs	122,822	90,793	8,550	524
Average number of employees	392	704	9	2

16 Taxation

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Corporate tax	(87,235)	(85,510)	-	-
Deferred tax	2,768	26,600	-	-
Withholding tax on dividends	15,011	39,366	(32,464)	(61,767)
Tax charge	(69,456)	(19,544)	(32,464)	(61,767)

Tax reconciliation

The tax on income before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group Dec 2010 P'000	Group Dec 2009 P'000	Company Dec 2010 P'000	Company Dec 2009 P'000
Surplus before tax	401,939	257,216	189,445	393,734
Tax calculated at a tax rate of 25%	100,487	64,305	47,361	98,434
Income not subject to tax	(16,020)	(5,395)	(47,361)	(98,434)
Withholding tax on dividends	(15,011)	(39,366)	(32,464)	(61,767)
Tax charge	69,456	19,544	32,464	61,767

Additional company tax

The Group had additional Company Tax (ACT) available for set off against withholding tax on dividends as at 31 December 2010 of P46 million (31 December 2009: P22 million).

17 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	Dec 2010 P'000	Dec 2009 P'000
Net profit attributable to ordinary equity holders of the parent for basic earnings and diluted earnings	322,550	227,302
Number of shares in issue	281,071	281,071
Staff share scheme and treasury shares	(17,092)	(19,104)
Weighted average number of shares used for calculating basic earnings per share	263,979	261,967
Weighted number of dilutive options	4,712	4,463
Weighted average number of shares used for calculating diluted earnings per share	268,691	266,430
Earnings per share (thebe)		
- basic	122	87
- diluted	120	85

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

18 Dividends per share paid during the period (net)

Declared and paid during the year:	Record date	P'000
Final dividend for the year to 31 December 2009:35 thebe (2008: 31 thebe)	9-Apr-2010	98,375
Special dividend for the year to 31 December 2009: 17 thebe (2008: 45 thebe)	9-Apr-2010	47,782
Interim dividend for six months to 30 June 2010: 25 thebe (2009: 17 thebe)	6-Oct-2010	70,268
		216,425
Dividend proposed after year end not recognised in the financial statements:		
Final dividend for the year to 31 December 2010:41 thebe (2009: 35 thebe)	8-Apr-2011	115,239
Dividend proposed for approval at AGM (Before withholding tax - not recognised as liability at 31 December)		115,239
Withholding tax on dividends		(17,286)
Dividend proposed for approval at AGM (After withholding tax - not recognised as liability at 31 December)		97,953

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

19 Related party disclosures

The financial statements include the financial statements of Botswana Insurance Holdings Limited, subsidiraies and associates as listed in the following table:

Principal subsidiaries	Country of incorporation	% of interest held December 2010	% of interest held December 2009	Nature of business
Directly held				
Botswana Life Insurance Limited	Botswana	100	100	Life insurance
Bifm Holdings Company Limited	Botswana	100	100	Holding company
BLI Investments (Pty) Limited	Botswana	100	100	Holding company
IGI Insurance Holdings Limited	Botswana	100	100	Dormant
Starleaf Investments (Pty) Ltd	Botswana	100	-	Dormant
Genebase Holdings (Pty) Ltd	Botswana	100	-	Loans
Regetta Investments (Pty) Ltd	Botswana	100	-	Dormant
Letshego Guard (Pty) Ltd	Botswana	100	-	Short term insurance
Letshego Guard Insurance Company Ltd	Botswana	100	-	Short term insurance
BIHL Trust	Botswana	N/A	N/A	Corporate Social Responsibility
BIHL Employee Share Scheme Trust	Botswana	N/A	N/A	Employee Share Trust
Indirectly held				
Botswana Insurance Fund Management Ltd	Botswana	100	100	Asset management
Botswana Life Properties (Pty) Limited	Botswana	100	100	Dormant
Bifm Holdings and Financial Services Ltd	Isle of Man	100	100	Holding company
Bifm Capital (Pty) Ltd	Botswana	51	51	Corporate finance
Bifm Capital 1	Botswana	100	100	Corporate finance
Bifm Capital 2	Botswana	100	100	Corporate finance
Bifm Projects (Pty) Ltd	Botswana	100	100	Building projects
African Life Financial Services (Zambia) Ltd	Zambia	70	70	Asset management and pension administration
KYS Investments (Pty) Ltd	Botswana	63	63	Holding company
Photon Private Equity Fund Managers (Pty) Ltd	Botswana	100	100	Private equity

		Group		Company	
		Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
(a) Transactions on insurance contracts					
Sanlam Limited (54% shareholder of BIHL)					
- Premium ceded to reinsurer		5,397	5,761	-	-
- Claim recoveries from reinsurer		(2,972)	962	-	-
Other transactions					
-Letshego	Credit life income	(79,124)	(78,127)	-	-
(Associate company of a parent)	Claims paid	26,198	22,388	-	-
-Funeral service	Share of income	(696)	(718)	-	-
(Subsidiary company of BIHL)					
Dividends received - BLIL		-	-	117,708	345,497
- Bifm		-	-	96,273	-
- BLI Investments		-	-	2,444	-
(b) Year end balances arising from transactions					
on insurance contracts.					
Net due from					
- Sanlam Limited		-	1,045	-	-

(c) Year end balances arising from transactions on

other services other than insurance contracts

	Amount receivable/(payable)			
	P'000	P'000	P'000	P'000
- BLIL (100% owned by BIHL)	-	-	(85,389)	-
- BIFM(100% owned by BIHL)	-	-	4,612	4,961
- Employee share scheme	-	102,168		
- Sanlam Limited (53% shareholder of BIHL)	-	-	-	-
- Sanlam Sky (Subsidiary of Sanlam Limited)	(3,960)	937	-	-
- SIM RSA (Subsidiary of Sanlam Limited)	-	(904)	-	-
	(3,960)	33	(80,777)	107,129

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

(e) Loans to directors

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 the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: PNil). 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

19 Related party transactions (continued)

(f) Transactions with key management

	Dec 2010 P'000	Dec 2009 P'000
(i) Compensation		
- Short-term employee benefits	24,242	19,973
- Pension costs - defined contribution plans	792	256
- Share based payments	9,741	(312)
- Other long-term benefits	1,532	1,137
	36,308	21,054
(ii) Holding in Company's policies	1,014	920

(g) Directors' shareholding

	Opening balance	Purchases/ (Sales)	Closing balance
V Senye	250,000	(50,000)	200,000
R Sikalesele-Vaka	582,278	268,566	850,844
B Dambe-Groth	22,943	-	22,943
M Mpugwa	6,582	-	6,582
U Corea	15,000	-	15,000
C Chauhan	75,020	-	75,020
Total	951,823	218,566	1,170,389

(h) Executive directors emoluments

The remuneration of executive directors comprises salaries and other short-term incentives as well as participation in long term incentive plans.

(i) Short-term emoluments

Name	Month of service	Salary P'000	Bonus P'000	contributions P'000	Total P'000
RD Sikalesele-Vaka	12	1,649	1,544	-	3,193
VJ Senye	12	1,114	1,750	-	2,864
Total executive directors		2,762	3,294	-	6,057

Share purchase plans

(ii) Long-term emoluments

Name	No. of options	Strike price (Pula)	Exercised	Outstanding	Expiry date
RD Sikalesele-Vaka					
Granted 2009	318,020	8.00	-	318,020	2012
Granted 2010	313,538	10.10	-	313,538	2013
VJ Senye					
Granted 2005	150,000	2.63	150,000	-	2015
Total	781,558		150,000	631,558	

All shares as disclosed above are granted and are exercisable until the expiry date as disclosed. Refer to note 22(b) for additional information on the scheme.

21 Commitments

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Capital expenditure budgeted for but not contracted for at the balance sheet date but not recognised in the financial statements				
Property and equipment	-	4,450	-	-
Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases				
Within one year	3,071	3,640	-	-
Within two to five years	10,663	9,187	-	-

The operating lease is for buildings that the Group is renting for business purposes.

22 Employee benefits

(a) 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 P 8.3 million (2009: P 8.1million) represents contributions payable to these plans by the Group at rates specified in the rules of the plan.

(b) Share-based payment

The Group has a share based payment scheme. The scheme is divided for (i) Management (ii) Other Staff. The Group introduced additional two new schemes during the year. These are (a) The Share Option Scheme and (b) The Conditional Share Plan

(i) Management Staff scheme

The management scheme is classified as equity settled share based payment. The objective of the scheme is to retain staff. Management staff are granted options to purchase shares after a period of 2 continuous service to the Group. The share options vest after a period of 6 years, of continuous service, from the grant date; 1/3 vesting after every 2 years. The options are issued at the ruling market price on the date of grant.

After the share options have vested, employees are given a period of 10 years from the date of vesting to exercise their option. The amount carried in the share based reserve at 31 December 2010 is P18.4 million (31 December 2009: P11.2 million). The expense recognised in the income statement is P 2.1 million (2009: P6.1 million).

	Year to 31 Dec 2010		Year to 31 Dec 2009	
Movement during the year	Number of options '000	Weighted average price Pula	Number of options '000	Weighted average price Pula
Outstanding at the beginning	7,028	14.00	7,145	13.59
Granted	-	-	550	8.70
Forfeited	(850)	16.90	(217)	11.12
Exercised	(1,458)	3.05	(450)	2.45
Outstanding at the end of year	4,720	16.86	7,028	14.00
Exercisable at 31 December	167	5.57	1,934	10.30

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

22 Employee benefits (continued)

Price range (P)	Number of shares outstanding
2.63-5.50	1,589,313
5.51-9.00	898,830
9.01-11.50	900,000
16.90	1,331,967
	4,720,110

The weighted average remaining contractual life for the shares outstanding as at 31 December 2010 is 8 years (2009: 8 year s)

The weighted average fair value of options granted during the year was NIL as there were no grants during the year. (2009: P 8.70).

The range of exercise prices for options outstanding at the end of the year was P3.60 - P16.90 (2009: P2.63-P16.90).

(ii) Other Staff

Staff are granted share options after a period of 2 continuous years of service to the group. The share options vest after a period of 3 years of continuous service from the grant date; therefore the employee has to be continuously employed with the group for 5 years before the shares vest. Staff do not pay for the share options. As the settlement is by way of shares, the scheme is classified as equity settled for accounting purposes. The carrying amount of the share based payment reserve was P35.6 million (2009: P19.5 million). The expense recognised in the income statement was P4.0 million (2009: P9.6 million).

	Year to 31 Dec 2010		Year to 31 Dec 2009	
Movement during the year	Number of options '000	Weighted average price Pula	Number of options '000	Weighted average price Pula
Outstanding at the beginning	4,386	-	3,066	-
Granted	678	-	1,513	-
Forfeited	-	-	-	-
Exercised	(975)	-	(193)	-
Outstanding at the end	4,089	-	4,386	-

The weighted average remaining contractual life for the shares outstanding as at 31 December 2010 is 3 years (2009: 8 year s)

The weighted average fair value of shares granted during the year was P11.00 (2009: P9.04).

The range of exercise prices for options outstanding at the end of the year was P8.70 - P16.75 (2009: P2.63-P16.90).

(a) The Share Option Scheme (SOS)

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

The share options vests after a period of three years of continiuos service from the grant date. The employer companies will, however, remain responsible to fund the procurement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The shares are issued at the ruling market price on the date of the grant. The subsidiaries account for the awards as cash settled while the Holding Company accounts for the awards as equity settled.

After the share options have vested, employees are given a period of 10 years from the offer date to exercise their option. The amount carried in the share based reserve at 31 December 2010 is P485,802 (31 December 2009: NIL). The expense recognised in the income statement is P 485,803 (2009: NIL).

The number of share options granted during the year was 900,707 (2009:NIL). The weighted average value of options granted during the year was P10.25 (2009: NIL)

(b) Conditional Share Plan (CSP)

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 and this together with the vesting period will be decided by the board and communicated through the offer letter. The employer companies will, however, remain responsible to fund the procurement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The subsidiaries account for the awards as cash settled while the Holding Company accounts for the awards as equity settled.

The amount carried in the share based reserve at 31 December 2010 is P2,6 million (31 December 2009: NIL). The expense recognised in the income statement is P 2,6 million (2009: NIL).

The number of Conditional shares granted during the year was 1,047 669(2009:NIL).

	Year to Dec 2010	Year to Dec 2009
Dividend yield	8.11%	6.98%
Volatility	28%	23.30%
Risk free interest rate	7.40%	8.10%
Spot price (thebe)	9.46	11.00
% of remaining employees	80.00%	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:

i) The life of the option is divided into a large number of small time periods.

ii) 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.

iii) 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 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.

iv) 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 (1) is used to estimate the option's value, reflecting the fact that the option cannot be exercised prior to vesting date.

v) 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 valuation date) is calculated. This represents the fair value of the option.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

22 Employee benefits (continued)

Other inputs used

Generally, there are seven variables that determine the price of an employee share option:

i) The market price of the underlying share at the grant date;
ii) The strike price of the option;
iii) The time remaining until the option expires (i.e. the expiry date of the option);
iv) The time remaining until the option vests;
v) The expected dividend yield of the underlying share over the life of the option;
vi) The expected volatility of the underlying share over the life of the option; and
vii) The risk-free interest rate 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.

23 Cash generated from operations

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Profit before tax as per income statement	401,939	257,216	189,445	393,734
Non cash flow items	(84,772)	82,416	2,340	-
Depreciation	5,098	4,142	-	-
Amortisation	1,113	1,152	-	-
Unrealised fair value gains/(losses) on shareholder assets	(17,985)	63,519	-	-
Unrealised fair value (gains) /losses on investment properties	(9,886)	24,735	-	-
Equity-accounted earnings	(72,217)	(26,821)	-	-
Share - based payments	9,105	15,689	2,340	-
Items disclosed separately	(56,620)	(58,499)	(216,824)	(413,282)
Interest received	(45,502)	(35,115)	(400)	(458)
Dividends received	(11,118)	(23,384)	(216,424)	(412,824)
Working capital changes:	677,109	1,843,390	197,897	(107,62)
Net increase in trade and other receivables	(1,085)	(58,386)	102,433	(45,186)
Change in policyholder liabilities	549,172	1,891,381	-	-
Decrease in reinsurance assets	13,279	10,140	10,140	-
Net increase/(decrease) in trade and other payables	115,743	255	95,464	(62,439)
Cash generated from/ (utilised) in operations	937,656	2,124,523	172,858	(127,173)

24 Cash and bank

	Group		Company	
	Dec 2010 P'000	Dec 2009 P'000	Dec 2010 P'000	Dec 2009 P'000
Cash and bank	113,990	45,543	17,997	5,462
Funds on deposit	1,262,238	1,369,445	-	-
Cash and cash equivalents	1,376,228	1,414,988	17,997	5,462

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 5% (2009: 7%). Funds on deposit have a maturity of three months or less.

The carrying amounts disclosed above reasonably approximate fair values at year end.

25 Risk management

Financial risks

The main categories of financial risks associated with the financial instruments held by the business's shareholders' funds are summarised in the following table:

Type of risk	Description
Financial risk	Market risk is the risk that the fair value of 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.
Currency risk:	the risk that fair value or future cashflows 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.

AFS

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

Type of risk	Description
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.
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.

All the financial instruments of the group are exposed to financial risk. The impact of some of these risks are mitigated by the opposite effect on the policy liabilities.

Market isk r

Shareholders' fund investments are exposed 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.

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 objective to minimise interest rate risk to a minimum.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group’s interest risk policy requires it to manage interest rate risk by maintaining 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 re-priced 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 the maturity.

The Investment committee set the limits in the investment mandates, and meet quarterly to review compliance with the agreed mandates, and where necessary change the mandates.

Sensitivity analysis to interest rate risk

Interest rate risk relates to variable rate financial instruments, call deposit accounts and fixed rate securities. The following table sets out the carrying amounts of the Company's financial instruments that are exposed to interest rate risk. The assumption is based on both shareholder and policyholder assets and liabilities.

Sensitivity on investment income

31-Dec-2010

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
BWP	0.5%	2,837,698	14,188	10,641
BWP	-0.5%	2,837,698	(14,188)	(10,641)
USD	0.5%	391,864	1,959	1,469
USD	-0.5%	391,864	(1,959)	(1,469)

31-Dec-2009

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
BWP	0.5%	2,863,257	4,391	3,293
BWP	-0.5%	2,863,257	(4,391)	(3,293)
USD	0.5%	397,260	5,068	3,801
USD	-0.5%	397,260	(5,068)	(3,801)

Fair value sensitivities

31-Dec-2010

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
BWP	0.5%	74,180	371	278
BWP	-0.5%	74,180	(371)	(278)

31-Dec-2009

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
BWP	0.5%	59,428	297	223
BWP	-0.5%	59,428	(297)	(223)

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

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. It is the Group's objective to minimise currency risk to a minimum.

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.No forward currency contracts are in place to eliminate the currency exposure on individual foreign transactions.

The following assets are for both shareholder and policyholder funds denominated in foreign currency

31-Dec-2010

	United States Dollar	Other Currencies (P000)	Total (P000)
Equity instruments	543,669	-	543,669
Money market instruments	173,364	-	173,364
Bonds	218,500	-	218,500
Foreign currency exposure	935,532	-	935,532
Average rate	7.30	-	-
Closing rate	6.62	-	-

31-Dec-2009

	United States Dollar	Other Currencies (P000)	Total (P000)
Equity investments	522,359	-	522,359
Money market instruments	177,213	-	177,213
Bonds	220,046	-	220,046
Foreign currency exposure	919,618	-	919,618
Average rate	7.96	-	-
Closing rate	6.67	-	-

Currency sensitivity

The analysis below is performed for the effect of a reasonable possible movement of the currency rate against the Botswana Pula with all other variables held constant, on the income statement and equity.

31-Dec-2010

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
USD	5%	935,532	46,777	35,082
USD	-5%	935,532	(46,777)	(35,082)

31-Dec-2009

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
USD	5%	919,618	45,981	34,486
USD	-5%	919,618	(45,981)	(34,486)

Price risk

Price risk is the risk that the fair value of 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, limits on investments in each country, sector and market.

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 Botswana Stock exchange 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 both shareholder and policyholder assets

31-Dec-2010

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
DCI	15%	119,528	17,929	13,447
DCI	-15%	119,528	(17,929)	(13,447)
MSCI	10%	172,079	17,208	12,906
MSCI	-10%	172,079	(17,208)	(12,906)

31-Dec-2009

	Change in variables	Value (P000)	Increase / (decrease) on profit beforetax (P000)	Increase / (decrease) on equity (P000)
DCI	15%	124,106	18,616	13,962
DCI	-15%	124,106	(18,616)	(13,962)
MSCI	10%	165,841	16,584	12,438
MSCI	-10%	165,841	(16,584)	(12,438)

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

Credit risk

Credit risk in the Group arises from the possibility of investments in bonds, offshore money markets, local money markets and cash and bank balances with banks will not be redeemed by the relevant counter parties 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 Group 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 to a minimum.

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 investment that may be held.

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 reviews. At each reporting date, the Group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

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. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

It is the Group's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Maximum credit risk exposure

The table below shows the maximum exposure to credit risk for the components of the balance sheet and so called off balance sheet exposures, such as future commitments. 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.

Group

	2010 Total P'000	2009 Total P'000
Long term Reinsurance assets	28,409	41,688
Bonds (Government, public authority, listed and unlisted corporates)	3,361,182	2,539,745
Money market instruments	11,489	6,264
Policy loans and other loan advances	224,448	304,730
Trade and other receivables	176,894	174,872
Related party balances	-	937
Cash, deposits and similar securities	1,376,228	1,414,988
Maximum credit risk exposure	5,178,650	4,483,224

Company

	2010 Total P'000	2009 Total P'000
Trade and other receivables	84	102,168
Related party balances	4,612	4,961
Cash, deposits and similar securities	17,997	5,462
Maximum credit risk exposure	22,693	112,591

Financial assets pledged as collateral

There are no financial assets that have been pledged as collateral for financial liabilities or contingent liabilities.

Credit exposure by rating

The table below provides information regarding the credit risk exposure of the Group at 31 December 2010 by classifying assets according to Standard and Poor credit ratings of the counterparties. AAA is the highest possible rating. Assets below are not past and not impaired:

	Group			Company		
	AAA	Not rated	Total P million	AAA	Not rated	Total P million
31 December 2010						
Assets backing policy liabilities						
Bonds (Government, public authority, listed and unlisted corporates)	1,211,504	2,075,498	3,287,002	-	-	-
Money market instruments	-	11,489	11,489	-	-	-
Policy loans and other loan advances	-	-	-	-	-	-
Trade and other recievables	-	-	-	-	-	-
Cash, deposits and similar securities	-	1,262,238	1,262,238	-	-	-
	1,211,504	3,349,225	4,560,729	-	-	-
Capital portfolio						
Bonds (Government, public authority, listed and unlisted corporates)	79,009	-	4,830	74,179	-	-
Money market instruments	-	11,489	11,489	-	-	-
Policy loans and other loan advances	-	224,448	224,448	-	-	-
Trade and other recievables	-	176,894	176,894	-	84	84
Cash, deposits and similar securities	-	113,990	113,990	-	17,997	17,997
Net working capital assets	-	-	68,544	-	68,544	-
	79,009	453,447	532,456	-	18,081	18,081

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

	Group			Company		
	AAA	Not rated	Total P million	AAA	Not rated	Total P million
31 December 2009						
Assets backing policy liabilities						
Bonds (Government, public authority, listed and unlisted corporates)	413,478	2,066,840	2,480,318	-	-	-
Money market instruments	-	6,264	6,264	-	-	-
Policy loans and other loan advances	-	60,687	60,687	-	-	-
Cash, deposits and similar securities	-	1,369,445	1,369,445	-	-	-
	413,478	3,503,236	3,916,714	-	-	-
Capital portfolio						
Bonds (Government, public authority, listed and unlisted corporates)	9,907	49,521	59,428	-	-	-
Money market instruments	-	6,264	6,264	-	-	-
Policy loans and other loan advances	-	244,044	244,044	-	-	-
Trade and other recievables	-	174,872	174,872	-	102,168	102,168
Cash, deposits and similar securities	-	45,543	45,543	-	5,462	5,462
Net working capital assets	-	240,770	240,770	-	-	-
	9,907	761,014	770,921	-	107,630	107,630

Collateral held as security for 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 and for cash purposes. 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 and listed bonds do not have collateral as these are deemed low risk and recoverable.

Liquidity risk

The liquidity risk arises from the potential inability of the Group paying its policy holders and short term creditors when they become due or they mature, because assets are not properly matched. There is an Actuarial committee and Investment Committees that meets 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 are based on expected maturities as modelled by the actuaries. The investment contracts are due on demand. Assets maturities have been disclosed on the basis of contractual maturities. The disclosures are based on both shareholder and policyholder assets

Liquidity risk (continued)

Maturity analysis of Financial Liabilities:

	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2010					
Policy holders liabilities					
-Insurance contracts	351,830	397,770	1,113,766	2,093,763	
3,957,129					
-Investment contracts	-	-	-	6,354,273	6,354,273
Related party balances	3,960	-	-	-	3,960
Trade and other payables	399,193	-	-	-	399,193
	754,983	397,770	1,113,766	8,448,036	10,714,555
31 December 2009					
Policy holders liabilities					
-Insurance contracts	265,757	385,706	1,069,339	1,912,211	3,633,013
-Investment contracts	-	-	-	6,129,217	6,129,217
Related party payables	903	-	-	-	903
Trade and other payables	286,506	-	-	-	286,506
	553,166	385,706	1,069,339	8,041,428	10,049,639

Maturity analysis of Financial assets and Financial Liabilities:

Group

	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2010					
Financial Assets:					
Long term Reinsurance assets	28,409	-	-	-	28,409
Bonds (Government, public authority,					
listed & unlisted corporates)	218,500	2,476,573	666,109	-	3,361,182
Money market instruments	11,489	-	-	-	11,489
Equity investments	-	-	-	6,097,371	6,097,371
Policy loans and other loan advances	224,448	-	-	-	224,448
Related party balances	-	-	-	-	-
Trade and other receivables	176,894	-	-	-	176,894
Cash, deposits and similar securities	1,376,228	-	-	-	1,376,228
	2,035,968	2,476,573	666,109	6,097,371	11,276,021
Financial Liabilities:					
Policy holders liabilities					
-Insurance contracts	351,830	397,770	1,113,766	2,093,763	
3,957,129					
-Investment contracts	-	-	-	6,354,273	6,354,273
Related party balances	3,960	-	-	-	3,960
Trade and other payables	399,193	-	-	-	399,193
	754,983	397,770	1,113,766	8,448,036	10,714,555

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

Group

	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2009					
Financial Assets:					
Long term Reinsurance assets	41,688	-	-	-	41,688
Bonds (Government, public authority, listed & unlisted corporates)	294,018	1,530,127	715,600	-	2,539,745
Money market instruments	6,264	-	-	-	6,264
Equity investments	-	-	-	6,338,558	6,338,558
Policy loans and other loan advances	-	304,730	-	-	304,730
Trade and other receivables	174,872	-	-	-	174,872
Related party balances	937	-	-	-	937
Cash, deposits and similar securities	1,414,988	-	-	-	1,414,988
	1,932,767	1,834,857	715,600	6,338,558	10,821,782
Financial Liabilities:					
Policy holders liabilities					
-Insurance contracts	265,757	385,706	1,069,339	1,912,211	3,633,013
-Investment contracts	-	-	-	6,129,217	6,129,217
Related party balances	903	-	-	-	903
Trade and other payables	286,506	-	-	-	286,506
	553,166	385,706	1,069,339	8,041,428	10,049,639

The financial instruments as presented in the above maturity analysis are measured at their fair values consistent with the amounts as presented on the statement of financial position. The maturity analysis is prepared based on the basis of the period expected to elapse, after year end, before the instruments mature and/or are settled/settled.

Company

	< 1 year	1-5 years	> 5 years	Open ended	Total
31 December 2010					
Financial Assets:					
Trade and other receivables	84	-	-	-	84
Related party balances	4,612	-	-	-	4,612
Cash, deposits and similar securities	17,997	-	-	-	17,997
	22,693	-	-	-	22,693
Financial Liabilities:					
Trade and other payables	23,320	-	-	-	23,320
Related party balances	85,389	-	-	-	85,389
	108,709	-	-	-	108,709
31 December 2009					
Financial Assets:					
Trade and other receivables	102,168	-	-	-	102,168
Related party balances	4,961	-	-	-	4,961
Cash, deposits and similar securities	5,462	-	-	-	5,462
	112,591	-	-	-	112,591
Financial Liabilities:					
Trade and other payables	13,245	-	-	-	13,245
Related party balances	-	-	-	-	-
	13,245	-	-	-	13,245

Determination of fair value and fair values hierarchy

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement 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 (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2010:

	Notes	Level 1	Level 2	Level 3	Total fair value
		P'000	P'000	P'000	P'000
31 December 2010					
Financial assets designated at fair value through profit or loss:					
Bonds (Government, public authority, listed & unlisted corporates)		446,702	2,914,480	-	3,361,182
Money market instruments		11,489	-	-	11,489
Equity investments		1,180,328	4,917,042	-	6,097,371
Policy loans and other loan advances		-	224,448	-	224,448
		1,638,519	8,055,970	-	9,694,489
Financial Liabilities:					
Investment contract liabilities		2,033,187	4,321,084	56,544	6,354,272
		2,033,187	4,321,084	56,544	6,354,272
31 December 2009					
Financial assets designated at fair value through profit or loss:					
Bonds (Government, public authority, listed & unlisted corporates)		-	2,539,745	-	2,539,745
Money market instruments		6,264	-	-	6,264
Equity investments		-	6,338,558	-	6,338,558
Policy loans and other loan advances		-	304,730	-	304,730
		6,264	9,183,033	-	9,189,297
Financial Liabilities:					
Investment contract liabilities		-	6,129,218	-	6,129,218
		-	6,129,218	-	6,129,218

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

25 Risk management (continued)

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 arms 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 (for example, over-the counter derivatives) are determined by using valuation techniquesto 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 valuation

Debt securities - Most of the securities held use Government bond and Bank of Botswana certificates yields for valuation purposes and add some spreads for credit risk. Estimates of future cashflows are based on contractual information and cashflows are discounted at risk adjusted discount rates. The risk free rate used to determine the risk adjusted rate is the government bond and the Bank of Botswana yield for similar assets and similar maturities.

Equity investments - 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 hence the classification under Level 2. The unit price is determined on the net asset value of the fund.
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Stable, reversionary bonus and participating annuity business (smoothed-bonus business)

These policyholder solutions do not expose the Group to significant liquidity risks. Expected cash flows are taken into account in determining the investment guidelines and asset spread of the portfolios. Limits are also placed on the exposure to illiquid investments.

Non-participating annuities

As discussed above, the liabilities are matched as far as possible with assets, mostly interest-bearing, to ensure that the duration of assets and liabilities are closely matched. The average duration of non-participating annuity policy liabilities and the supporting assets held by the Group's life insurance operations are reflected in the table below, indicating that the Group's non-participating annuity books are well matched, which also limits the interest rate risk exposure discussed in Note 25.

	31 Dec 2010		31 Dec 2009	
Years	Assets Pmillion	Policy Pmillion	Assets Pmillion	Policy Pmillion
Non participating annuities and supporting assets	2,905	2,905	1,908	1,908

Guarantee plans

Liquidity risk is managed by matching the liabilities with assets that have similar maturity profiles as the liabilities.

Other policyholder business

Policyholder portfolios supporting linked and market-related business, participating annuities and other non-participating life business are invested in appropriate assets, taking into account expected cash outflows.

Investment Policy

The BIHL Group through its asset management company, Botswana Insurance Fund Management Limited(Bifm) that is 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 who implement 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 realize 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 (3 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 macro-economic 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, 3 to 5 year period, to maximise returns at the lowe st possible risk. Bottom-up stock-picking and fundamental stock analysis coupled with a value-style bias, are used for portfolio construction.

F*ixed Income –* The approach used for long dated bonds and short-dated money-market instruments differs:

(a) 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.

(b) 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 get 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.

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:

(a) 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.

(b) 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.

(c) Offshore hedge funds are currently used as an alternative to offshore bonds given our bearish view on the prospects for offshore bonds.

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

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	Loans and receivables	Financial liabilities held at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
31 December 2010					
Financial assets					
Bonds (Government, public authority, listed and unlisted corporates)	3,361,182	-	-	-	3,361,182
Money market instruments	11,489	-	-	-	11,489
Equity investments	6,097,371	-	-	-	6,097,371
Policy loans and other loan advances	224,448	-	-	-	224,448
Trade and other receivables	-	176,894	-	-	176,894
Cash, deposits and similar securities	-	1,376,228	-	-	1,376,228
Total financial assets	9,694,490	1,553,122	-	-	11,247,612
Financial liabilities					
Long term policyholder liability - insurance contracts	-	-	3,957,129	-	3,957,129
Long term policyholder liability - investment contracts	-	-	6,354,273	-	6,354,273
Related party balances	-	-	-	3,960	3,960
Trade and other payables	-	-	-	399,193	399,193
Total financial liabilities	-	-	10,311,402	403,153	10,714,555
31 December 2009					
Financial assets					
Bonds (Government, public authority, listed and unlisted corporates)	2,539,745	-	-	-	2,539,745
Money market instruments	6,264	-	-	-	6,264
Equity investments	6,338,558	-	-	-	6,338,558
Policy loans and other loan advances	304,730	-	-	-	304,730
Trade and other receivables	-	274,443	-	-	274,443
Related party balances	-	937	-	-	937
Cash, deposits and similar securities	-	1,414,988	-	-	1,414,988
Total financial assets	9,189,297	1,690,368	-	-	10,879,665
Financial liabilities					
Long term policyholder liability - insurance contracts	-	-	3,591,324	-	3,591,324
Long term policyholder liability -investment contracts	-	-	6,129,217	-	6,129,217
Related party payables	-	-	-	904	904
Trade and other payables	-	-	-	286,507	286,507
Total financial liabilities	-	-	9,720,541	287,411	10,007,952

Company

	Financial assets held at fair value through profit or loss	Loans and receivables	Financial liabilities held at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
31 December 2010					
Financial assets					
Trade and other receivables	-	84	-	-	84
Related party balances	-	4,612	-	-	4,612
Cash, deposits and similar securities	-	17,997	-	-	17,997
Total financial assets	-	22,693	-	-	22,693
Financial liabilities					
Trade and other payables	-	-	-	23,320	23,320
Related party payables	-	-	-	85,389	85,389
Total financial liabilities	-	-	-	108,709	108,709
31 December 2009					
Financial assets					
Trade and other receivables	-	102,168	-	-	102,168
Related party balances	-	4,961	-	-	4,961
Cash, deposits and similar securities	-	5,462	-	-	5,462
Total financial assets	-	112,591	-	-	112,591
Financial liabilities					
Related party payables	-	-	-	-	-
Trade and other payables	-	-	-	13,245	13,245
Total financial liabilities	-	-	-	13,245	13,245

Interest income on loan and recievables was P 34.9 million (2009: P 27.1 million)

27 Restatement of statement of financial position

The group operates a share option scheme for employees and makes use of a Staff Share Scheme (SSS) to facilitate the administration of the scheme. Funding to the SSS was previously treated as a trade receivable to be settled on exercise of the options and through dividends receipts before options are exercised. During the current year the group revised its interpretation of SIC 12: Consolidation – Special Purpose Entities and now regards the SSS as a special purpose entity of the Group. This has resulted in the consolidation and subsequent elimination of certain group related amounts, including the recognition of treasury shares held by the SSS. The change has no effect on profit. The efect on the statement of financial position is as follows:

	2009 P'000	2008 P'000
At 31 December		
Effect on equity (decrease)	99,573	54,333
Effect on trade and other recievables (decrease)	99,573	54,333

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

28 Reclassification

In the prior year the long term reinsurance assets were netted off against the long term insurance contract liabilities. During the current year the balances were separated and are represented in note 8. This is to conform to IFRS 4 which states that an insurer shall not offset reinsurance against insurance liabilities. This has no impact on the income statement.

	2009 P'000	2008 P'000
Insurance Contract liabilities		
As previously reported	3,591,324	2,817,683
Reclassification of reinsurance assets	41,688	51,828
As restated	3,633,012	2,869,511

Notice of Annual General Meeting

Notice is hereby given that the nineteenth annual general meeting of Botswana Insurance Holdings Limited will be held at Gaborone Sun Conference Centre, Gaborone Botswana on 30 June 2011 at 16:00hrs for the following business:

Ordinary Business

1. **To read the notice convening the meeting.**

2. **Ordinary Resolution 1:**
   To receive, approve and adopt the audited financial statements for the year ended 31 December 2010 together with the reports of the statutory actuary and auditors.

3. **Ordinary Resolution 2:**
   To approve the dividends declared by the directors on 19 August 2010 and 10 February 2011.

4. **Ordinary Resolution 3:**
   To elect directors in accordance with the provisions of the Articles of Associations of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election

   a. Mrs M. Dawes
   b. Mr. F. Kellerman
   c. Mr. C. Chauhan

5. **Ordinary Resolution 4:**
   To confirm the appointment of the following directors who were appointed directors of the company by the Board during the course of the year.
   a. Mr M. Mpugwa
   b. Mr J. Hinchliffe
   c. Mr A. Tyer

6. **Ordinary Resolution 5:**
   To approve the remuneration of the chairman and non-executive directors.

7. **Ordinary Resolution 6:**
   To approve the remuneration of the auditors for the year ended 31 December 2010.

8. **Ordinary Resolution 7:**
   To appoint Ernst & Young as auditors for the ensuing year..

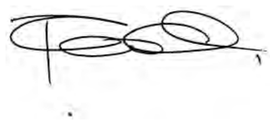
Voting and Proxies

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 annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

By order of the Board



Rorisang Modikana
Company Secretary

A shareholder/s is entitled to attend and vote at this Annual General Meeting 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 Annual General Meeting.

Notes

Proxy Form

To be completed by certificated shareholders with "own name" registration
For use at the Annual General Meeting to be held on at 16:00hrs on, 30 June 2011 at Gaborone Sun, Conference Centre, Botswana

I/We ____

____

of ____

being a shareholder/s of the above mentioned company, holding ____________ number of shares hereby appoint:

1. ____ or failing him/her
2. ____ or failing him/her
3. the Chairman of the Annual General Meeting

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held at Gaborone Sun Conference Centre, on 30 June 2011, at 16:00hrs, 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 2010			
2	Ordinary resolution number 2 - to approve the dividends declared by the directors on 19 August 2010 and 10 February 2011			
3	Ordinary resolution number 3 - to elect directors in accordance with the provisions of the Articles of Associations of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election. a. Mrs M. Dawes b. Mr. F. Kellerman c. Mr. C. Chauhan			
4	Ordinary resolution number 4 - to confirm the appointment of the following directors who were appointed directors of the company by the Board during the course of the year a. Mr. M. Mpugwa b. Mr J. Hinchliffe c. Mr. A. Tyer			
5	Ordinary resolution number 5 - to approve the remuneration of the chairman and non-executive directors			
6	Ordinary resolution number 6 - to approve the remuneration of the auditors for the year ended 31 December 2010			
7	Ordinary resolution number 7 - to appoint auditors for the coming year to 31 December 2011			

Signed at ____________ on the ____________ day of 2011 ____________

Signature ____________

Explanatory notes to resolutions for the annual general meeting

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

The directors have to present to members at the annual general meeting the annual financial statements, incorporating the report of the financial director for the period ended 31 December 2010, together with the reports of the valuator and the auditors contained in this annual report.

Election of directors

In terms of the Company's Articles, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. The Articles also provide that the appointment of any person as a director of the Company requires confirmation by shareholders at the first annual general
meeting of the Company after the appointment of such person as director.

Shareholders' Calendar

Reporting

Financial year end	31 December
Announcement of financial year end 31 December 2010 results	01 March 2011
Annual report sent on or about	30 May 2011
Annual General Meeting	30 June 2011
Interim results published	August 2011

Dividends

2010 Final dividend payment	08 April 2011

Notes to form of proxy

1. A shareholder may insert the name of a proxy or names of two alternate proxies with or without deleting "the Chairman of the General Meeting", such a deletion must be initialled by the shareholder. The person, whose names 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 Annual General Meeting as he/she deems fit in respect of the entire shareholder's votes exercisable thereat. A shareholder or his proxy is not obliged to use all the votes exercisable by the shareholder or his 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 proxy.

3. Completed forms must be lodged with or posted to the company's registered office Block A, Fairgrounds Office Park or PO Box 336, Gaborone Botswana, or faxed +267 3906 386 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 Annual General Meeting (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 Annual General Meeting 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.