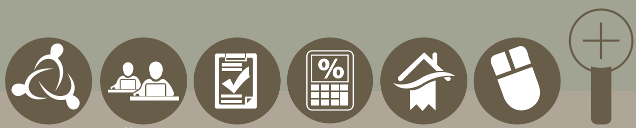
BIHL GROUP

Annual Report 2012

Strength in Numbers

Contents

Key to symbols



ABOUT THIS REPORT

The Theme of this Report.

"Strength in Numbers"

Re a le amogela , we welcome to our 2012 BIHL Group Annual Report..

Thank you very much for taking the time to peruse our 2012 Annual Report. This year we have tried to bring to life a very key aspect of our current strategy toward ensuring the continued suitability of our organisation. We have opted to illustrate what we mean by ""Strength in Numbers".

In the simplest of terms we are referring to our ability as a Group to be able to draw from the collective strength of our Group of brands to deliver world-class solutions to our clients. However there is another spin on this phrase that will be brought to life in this report. That is the aspect of the strength that our "numbers" bring to the table as we seek new opportunities.

Thus throughout this report you will see our reference to the numbers. Note that we are referring to numbers in the purists of meanings beyond just the funds and profits. Thus we will also report on the number of skilled staff we have on our team, the number of properties we have under management, the number of products we have…

We have many numbers at BIHL and all of them make us strong. We hope you will enjoy this report and find it both informative and useful.

Batsho Dambe-Groth, BIHL
Chairperson

Our core businesses

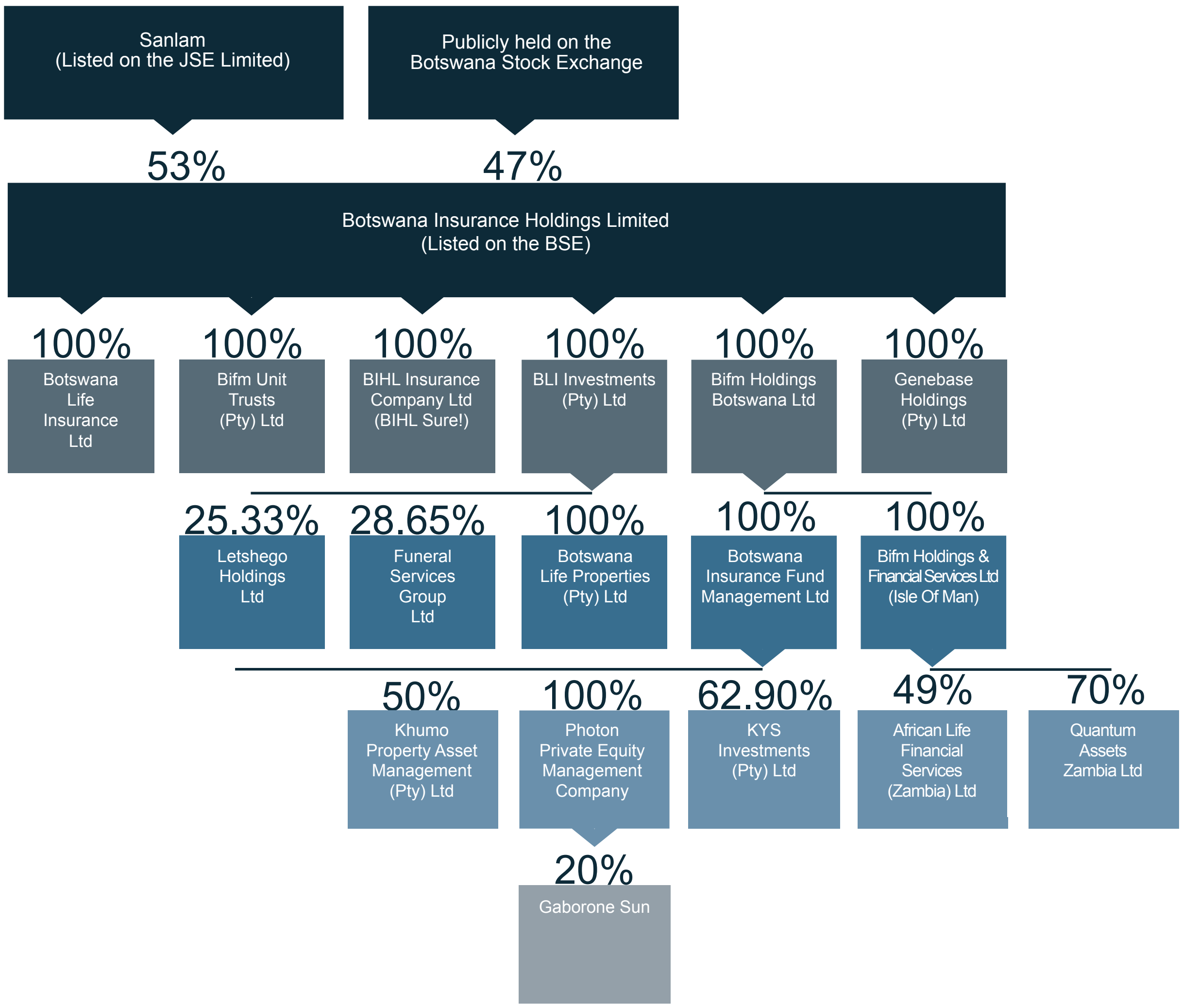
The Corporate Office of the BIHL Group is responsible for centralised functions that include strategic direction, Group financial and risk management, Group marketing and communications, Group human resources and information technology, corporate social investment and general Group services.

Life Insurance	Botswana Life Insurance Limited - 100%- Life insurance
Asset Management	BIHL Unit Trusts(Pty) Ltd- 100%- Retail collective investments Bifm Holdings Botswana Limited- 100% Subsidiaries - Botswana Insurance Fund Management Limited (Bifm) 100%-Asset management - Khumo Property Asset Management (Pty) Ltd- JV- 50%- Property Management - Photon Private Equity Management Company - 100%- Dormant - KYS Investment (Pty) Ltd- 62.9%- owns 20% via Gaborone Sun - Bifm Holdings & Finacial Services Limited (Isle of man)-100% - Quantum Assets Zambia Limited- 70% Property Development - African Life Financial Services (Zambia) Limited - 49%- Employee benefits
Short term Insurance	BIHL SURE! -100% - Short term insurance products
Others	- Genebase Holdings Lmited 100%- Secured Loans - BLI Investments (Pty) Ltd- 100% - Letshego Holdings Limted- 25.33% - Micro- lending - Funeral Services Group- 28.65% - Funeral products - Botswana Life Properties (Pty) Ltd 100%- Dormant

Who we are

Botswana Insurance Holdings Limited (BIHL) is a broad based financial services group and one of the largest companies listed on the Botswana Stock Exchange. Its two largest subsidiaries, Botswana Life Insurance Limited and Botswana Insurance Fund Management (Bifm) hold dominant positions in their respective sectors. In line with its diversification and value enhancement strategy, BIHL introduced BIHL Sure!, the short term insurance business in 2012 (see more on P68). With this same strategy in mind, BIHL is a shareholder in Letshego Holdings Limited and Funeral Services Group Limited (FSG). The majority shareholder of BIHL with 53% is Sanlam Limited, a multifaceted financial services company that has a broad and significant footprint in Africa. The remaining 47% is held by Botswana citizens.

In addition to being a financial services provider, the BIHL saw it fit to develop a social investment arm that would give back to Botswana communities through the BIHL Trust. BIHL contributes 1% of post tax profit to the BIHL Trust and through this social investment organ, BIHL is devoted to promoting self sufficiency and sustainable upliftment of disadvantaged communities in Botswana (see more on P76-89).



BIHL GROUP

"Perhaps the most important development for the Group in 2012 was the evidence of the value of our diversification strategy"

The BIHL Group continues to ride the turbulent economic waters that the entire planet has had to endure.
As a result BIHL experienced decreased earnings, value of new business and decreased dividend payout. However, we believe that as a group we have been able to retain and grow our value during this time because of the collective strength of our subsidiaries.
Our new tag line "Strength in Numbers" talks to this very key aspect of what the BIHL is. We are able to spread our risks across the strength of the many great brands that we have. Our size however has not slowed down our ambitions to constantly be alert to new and innovative ways to deliver greater value to our shareholders.

GROUP FINANCIAL HIGHLIGHTS

Revenue
- Net premium income increased by 10% to P1.9 billion
- Fee income decreased by 33% to P75 million
- Value of new business decreased by 14% to P99 million

Earnings
- Operating profit decreased by 15% to P233 million.
- Core earnings decreased by 11% to P271 million
- Profit attributable to equity holders decreased by 16% to P391million.

Assets under Management
- Assets under management increased by 21% to P21.6 billion

Embedded Value
- Embedded value increased by 7% to P2.60 billion
- Return on Embedded Value of 13% (2011: 8%)

Dividends
- P157.4 million paid in dividends during the year (2011: P185.5 million)
- Final normal dividend proposed of 20 thebe per share (gross of tax)

Solvency
- Business well capitalised, required capital covered 6.8 times (December 2011: 5.9 times)

	2012 P million	2011 P million	% Change
Group summary			
Premium income (net of reinsurance)	1,950	1,767	10%
Value of new business	99	115	-14%
Operating profit	233	273	-15%
Total profit	394	471	-16%
Assets under management	21,627	17,820	21%
Ordinary shareholders' equity	1,945	1,691	15%
Total assets	15,417	12,728	21%
Embedded value	2,576	2,410	7%
Productivity	**2012**	**2011**	
Operating expenses to premium income and asset management fees	14%	13%	
Selling expenses to premium income	11%	12%	
Shareholder investment returns to average shareholder equity	1%	1%	
Return on embedded value	13%	8%	
Solvency and liquidity	**2012**	**2011**	
Capital adequacy cover (times)	6.84	5.92	
Dividend cover on core earnings** (times)	1.76	1.76	
Ordinary share performance			
Basic earnings thebe per share	146	174	-16%
Diluted earnings thebe per share	145	173	-16%
Dividend thebe per share -interim	15	25	-40%
-final proposed- Normal	20	41	-51%
Embedded value thebe per share	961	907	6%
Trading prices (thebe per share)			
closing price	1035	976	6%
high	1055	1211	-13%
low	976	960	2%
Price earnings ratio	7.09	5.61	26%
Domestic Companies Index (DCI)	7,510.24	6,970.94	8%
Number of shares in issue ('000)	281,071	281,071	0%
Number of shares traded ('000)	5,509	8,394	-34%
Market capitalisation (P million)	2,909	2,743	6%
Number of shareowners	3,014	3,144	-4%
Earnings yield (%)	14.38	18.71	-23%
Dividend yield (%)	3.18	6.00	-47%

** Core earnings include operating surplus and shareholder investment income

How we performed in 2012

Final dividend: 20 thebe
Interim dividend: 15 thebe
Total dividend: 35 thebe

Embedded Value
P2,6 billion
(increases by 7%)

Operating profit
P233 million

15% reduction in operating profit

Value of new business
P99 million

14% reduction in VNB

Assets under management
P21.6 billion

21% increase

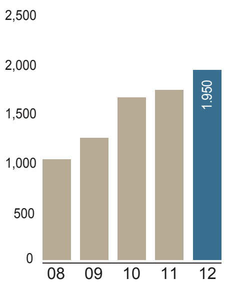
Group revenues grew by some 11%, largely as a result of the sterling performance of Botswana Life; while Bifm increased their assets under management to above the P20-billion mark for the first time – giving the company the platform required to grow its fee income.

Value of new business however, decreased as a result of reduced business volumes.

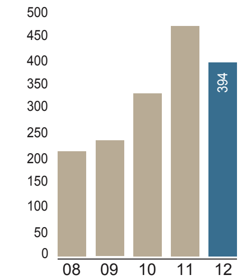
There is also a significant decrease in dividend as a result of the decreased earnings and a cautious approach to managing capital.

Financial highlights

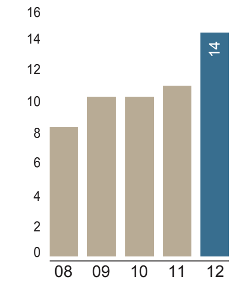
Premium income
(Pula billion)



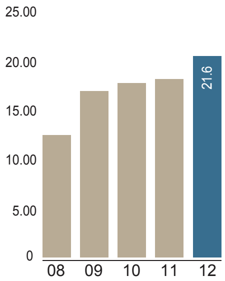
Profit after tax
(Pula million)



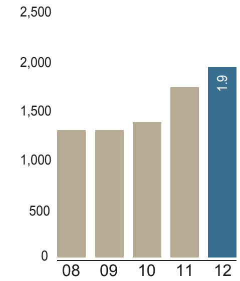
Investments
(Pula billion)



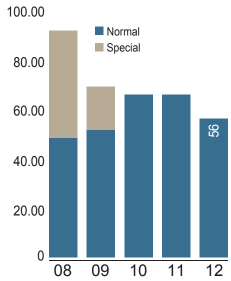
Assets under management
(Pula billion)



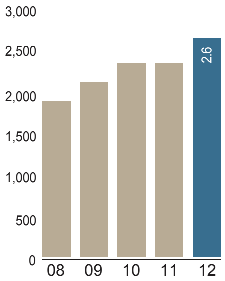
Shareholder's equity
(Pula billion)



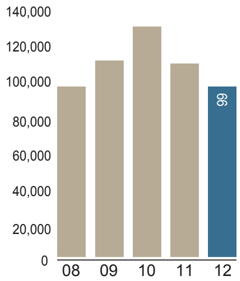
Dividend per share
(Thebe)



Embedded value
(Pula billion)



Value of new business
(Pula million)



TEN YEAR REVIEW

	Year to 31-Dec-12 P'000	Year to 31-Dec-11 P'000	Year to 31-Dec-10 P'000
Group consolidated income statement			
Net premium income	1,949,585	1,767,046	1,620,513
- Recurring	887,972	877,636	754,096
- Single	1,061,613	889,410	866,417
Fee income	74,700	110,944	137,249
Fair value gains on investment properties	-	-	-
Investment income	628,915	749,577	470,190
Profit on sale of subsidiary	6,075	33,785	-
Net gains/(losses) from financial assets held at fair value through profit and loss	452,917	134,323	(180,785)
Net income	3,112,192	2,795,675	2,047,167
Net insurance and investment contract benefits and claims	(2,314,707)	(1,935,869)	(1,182,594)
Policy holder benefits paid	(904,175)	(907,459)	(712,524)
Change in liabilities under investment contracts	(383,646)	(400,986)	(132,674)
Change in policyholder liabilities under insurance contracts	(1,026,885)	(627,424)	(337,396)
Expenses	(508,636)	(465,265)	(534,852)
Selling expenses	(219,165)	(219,687)	(297,649)
Administration expenses	(289,471)	(245,578)	(237,203)
Goodwill impaired and amortised	-	-	-
Profit before share of profit of associates and joint ventures	288,849	394,541	329,721
Share of profit of associates and joint ventures	196,482	133,872	72,217
Profit before tax	485,331	528,413	401,938
Income tax expense	(90,936)	(57,083)	(69,456)
Profit for the year	394,395	471,330	332,482
Earnings per share (thebe)			
- basic	146.00	174.00	122.00
Gross dividends per share (thebe)	35.00	66.00	66.00
Weighted average number of shares in issue ('000)	268,110	265,812	263,979

Year to 31-Dec-09 P'000	Year to 31-Dec-08 P'000	Year to 31-Dec-07 P'000	Year to 31-Dec-06 P'000	9 mths to 31-Dec-05 P'000	Year to 31-Mar-05 P'000	Year to 31-Mar-04 P'000
1,253,413	958,636	791,281	678,983	450,647	527,492	488,892
682,577	565,313	447,885	371,750	255,517	297,406	289,468
570,836	393,323	343,396	307,233	195,130	230,086	199,424
120,623	121,308	110,316	81,466	51,429	40,420	53,368
-	8,768	80,682	23,221	-	-	-
479,984	463,214	604,233	490,223	117,186	330,021	216,688
-	-	-	-	-	-	-
1,002,835	(2,006,255)	1,178,752	1,823,525	1,498,082	327,219	830,867
2,856,855	(454,329)	2,765,264	3,097,418	2,117,344	1,225,152	1,589,815
(2,178,644)	1,012,143	(1,907,840)	(2,516,038)	(1,777,289)	(885,675)	(1,341,365)
(524,344)	(418,695)	(343,149)	(257,557)	(149,194)	(158,008)	(151,555)
(850,960)	1,534,843	(1,038,206)	(1,700,829)	(1,299,982)	(438,329)	(830,867)
(803,342)	(104,008)	(526,488)	(557,652)	(328,113)	(289,338)	(358,943)
(447,815)	(332,115)	(257,737)	(190,604)	(132,399)	(145,201)	(129,453)
(245,028)	(165,735)	(118,067)	(73,241)	(51,124)	(67,837)	(54,015)
(202,787)	(166,380)	(139,670)	(117,363)	(81,275)	(77,364)	(71,733)
-	-	-	-	-	-	(3,705)
230,397	225,698	599,687	390,776	207,656	194,276	118,997
26,821	9,802	4,001	2,304	3,083	(3,853)	(1,537)
257,217	235,500	603,688	393,080	210,739	190,423	117,460
(19,544)	(14,037)	(49,867)	(77,021)	(38,150)	(33,664)	(13,620)
237,672	221,462	553,820	316,059	172,589	156,759	103,840
87.00	77.03	205.81	119.2	64.9	62.1	38.3
77.03	56.0	56.0	42.0	27.5	23.5	20.0
261,967	262,567	259,519	259,833	259,291	252,616	269,369

TEN YEAR REVIEW
CONTINUED

	As at 31-Dec-12 P'000	As at 31-Dec-11 P'000	As at 31-Dec-10 P'000
Group consolidated statement of financial position			
Property and equipment	10,911	12,561	15,854
Intangible assets	154,001	146,735	140,782
Investments	14,281,694	11,111,149	10,428,159
Trade and other recievables	209,723	209,360	206,991
Cash deposits and similar securities	760,539	1,248,600	1,376,228
Total assets	15,416,868	12,728,405	12,168,015
Ordinary shareholders' equity	1,944,961	1,690,795	1,374,259
Non-controlling interest	33,651	36,050	31,588
Policyholder liabilities	12,966,214	10,587,045	10,311,402
- insurance contracts	5,592,072	4,573,612	3,957,129
- investment contracts	7,374,142	6,013,433	6,354,273
Deferred tax liability	17,939	12,726	19,050
Trade and other payables	454,103	401,789	431,716
Total equity and liabilities	15,416,868	12,728,405	12,168,015

	Year to 31-Dec-12 P'000	Year to 31-Dec-11 P'000	Year to 31-Dec-10 P'000
Group statement of cash flows			
Cash generated from/ (utilised in) operating activities	1,785,568	(85,378)	937,655
Interest received	329,167	425,096	45,502
Tax paid	(106,695)	(69,253)	(59,179)
Dividends received/(paid)	13,790	65,353	(205,307)
Cash flow from operating activities	2,021,829	335,818	718,671
Cashflow utilised in investing activities	(2,509,890)	(463,446)	(757,432)
Net cash flows (utilised in)/generated from financing activities	-	-	-
Net (decrease)/increase in cash and cash equivalents	(488,061)	(127,628)	(38,761)
Cash and cash equivalents at the beginning of the year	1,248,600	1,376,228	1,414,988
Cash and cash equivalents at the end of the year	760,539	1,248,600	1,376,228

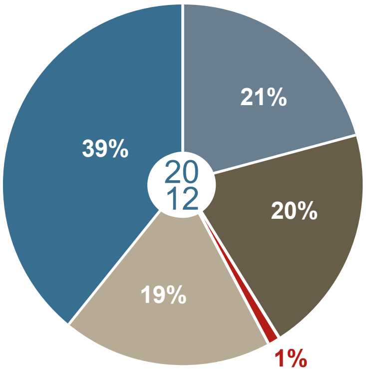
As at 31-Dec-09 P'000	As at 31-Dec-08 P'000	As at 31-Dec-07 P'000	As at 31-Dec-06 P'000	As at 31-Dec-05 P'000	As at 31-Mar-05 P'000	As at 31-Mar-04 P'000
18,487	16,890	13,962	20,666	43,873	47,527	16,497
82,622	79,821	16,337	14,649	15,610	16,632	16,121
9,648,070	7,880,357	10,015,626	8,876,477	6,767,586	5,390,907	6,007,611
218,458	165,689	65,764	62,004	91,281	78,862	207,938
1,414,988	1,384,478	672,170	255,198	7,287	7,234	6,265
11,382,626	9,527,235	10,783,859	9,228,994	6,925,637	5,541,162	6,254,432

1,261,805	1,331,035	1,317,057	849,136	644,588	506,506	549,852
35,042	31,095	55,006	21,172	17,723	13,051	17,207
9,762,230	7,819,021	9,129,979	8,140,007	6,114,114	4,882,945	5,567,539
3,633,013	2,817,683	2,683,973	2,157,459	1,599,913	1,287,454	1,020,160
6,129,217	5,001,338	6,446,006	5,982,548	4,514,201	3,595,491	4,547,379
21,090	49,760	70,246	50,664	17,494	13,785	7,434
302,459	296,324	211,571	168,015	131,718	124,875	112,400
11,382,626	9,527,235	10,783,859	9,228,994	6,925,637	5,541,162	6,254,432

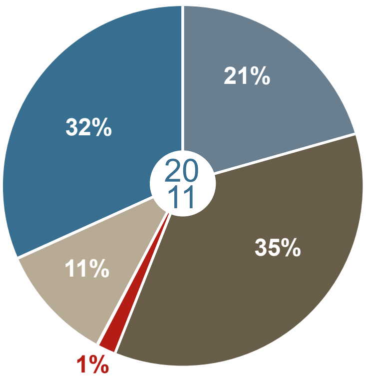
Year to 31-Dec-09 P'000	Year to 31-Dec-08 P'000	Year to 31-Dec-07 P'000	Year to 31-Dec-06 P'000	9 mths to 31-Dec-05 P'000	Year to 31-Mar-05 P'000	Year to 31-Mar-04 P'000
2,123,616	(1,109,328)	1,184,913	106,098	134,266	15,157	611,092
35,115	74,364	45,495	32,502	85,280	164,903	57,550
(40,263)	(46,656)	(44,276)	(50,044)	(32,153)	(21,838)	(74,871)
(240,246)	(157,220)	(152,840)	(88,610)	(48,438)	(68,922)	(60,650)
1,878,222	(1,238,840)	1,033,292	(54)	138,955	89,300	533,121
(1,847,712)	1,951,148	(616,320)	(954,666)	(138,470)	(89,455)	(534,013)
-	-	-	-	(432)	1,124	1,489
30,509	712,308	416,972	(954,720)	485	(155)	(892)
1,384,479	672,170	255,198	1,209,918	7,234	6,265	5,668
1,414,988	1,384,478	672,170	255,198	7,287	7,234	6,265

VALUE ADDED STATEMENT
CONTINUED

Value added distribution



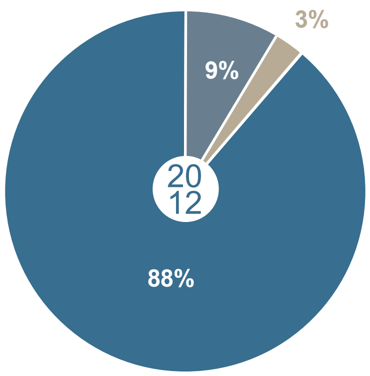
- Retained for expansion & growth
- Employees
- Shareholders
- Minority shareholders
- Government



	31 Dec 2012 P'000	31 Dec 2011 P'000
Value Added		
Income from operations	1,898,142	1,901,137
Operating expenditure	(508,636)	(465,265)
Policyholder benefits paid	(904,175)	(907,459)
	485,331	528,413
Value Distributed		
To employees		
Salaries, wages and other benefits	102,704	110,329
To ordinary shareholders		
Dividends- Normal	98,375	185,507
To minority shareholders	3,477	8,357
To Government		
Taxation	90,936	57,083
To expansion and growth		
Reinvested in the business for future growth	173,604	155,129
Amortisation	6,423	1,836
Depreciation	4,392	4,801
Deferred taxation	5,420	5,371
	189,839	167,137
	485,331	528,413
Summary		
Employees	21%	21%
Shareholders	20%	35%
Minority shareholders	1%	2%
Government	19%	11%
Retained for expansion and growth	39%	32%
	100%	100%

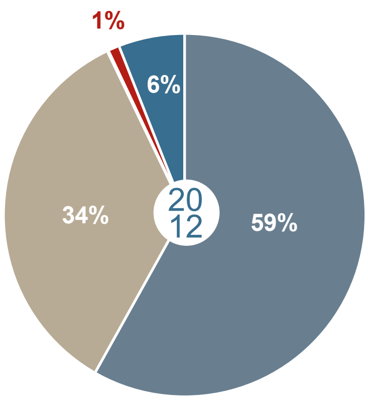
SHARE ANALYSIS
CONTINUED

Breakdown of shareholders



Private individuals
Corporate bodies
Trust accounts
Nominees companies

Breakdown of shares held



	Shareholders		Shares held	
	Number of holders	% of holders	Shares held	% of issued shares
1- 5000	2,284	75.78%	2,281,174	0.81%
5001-10000	267	8.86%	1,878,023	0.67%
10001- 50000	324	10.75%	6,874,539	2.45%
50001-100000	38	1.26%	2,600,170	0.93%
100001- 500000	71	2.36%	17,534,306	6.24%
500,001 - 1000,000	11	0.36%	7,090,938	2.52%
OVER 1,000,000	19	0.63%	242,811,502	86.39%
Total	3,014	100.00%	281,070,652	100.00%

Top ten shareholders		
Sanlam Developing Markets Limited	100,978,319	35.93%
African Life Assurance Company (Botswana)(Pty) Ltd	48,603,380	17.29%
Fnb Noms Bw(Pty) Ltd Re:fam Bpopf1-10001028	15,176,107	5.40%
Fnb Noms Bw(Pty) Ltd Re:bifm Bpopf Active 10001025	13,220,318	4.70%
Fnb Bw Noms(Pty) Ltd Re: Iam Bpopfp 10001031	12,692,437	4.52%
Motor Vehicle Accident Fund	10,735,164	3.82%
Stanbic Nominees Re: Bifm	10,376,092	3.69%
Fnb Nominees (Pty)Ltd Re: cfm Bpopf10001011	5,373,267	1.91%
Fnb Noms Bw(Pty) Ltd Re: Fam Bpopf3-10001030	4,385,847	1.56%
Fnb Nominees (Pty)Ltd Re: sims Bpopf 10001009	4,346,478	1.55%
Others	55,183,243	19.63%
	281,070,652	100.00%

	Shareholders		Shares held	
Category	Number	%	Number	%
Corporate bodies	253	8.39%	164,585,151	58.56%
Nominees companies	93	3.09%	97,042,344	34.53%
Trust accounts	4	0.13%	2,601,985	0.93%
Private individuals	2,664	88.39%	16,841,172	5.99%
	3,014	100.00%	281,070,652	100.00%

GROUP SNAPSHOTS 2012

The launch of the new look and feel "Strength in Numbers"

BIHL Group unveils its new corporate identity along with a new positioning statement, "Strength in Numbers"

(More on page 38)

Unit Trusts

P200

Bifm announces the launch of Collective Investment Undertaking (CIU) in 2013. Bifm's Unit Trusts are individually tailored investment offerings which afford Batswana the opportunity to be a part of a larger pool of investors for as little as P200 per month. (More on page 66)

BIHL moves up in Letshego's share register

25.3%

By 2012 BIHL increased its holdings in Letshego from 16.5 percent to 25.3 percent in 2012.

BIHL Trust launch

1%

BIHL Group announced its CSI trust which is aimed at supporting Batswana communities and individuals to empower themselves. Through various initiatives the BIHL Trust aims to ultimately build stronger communities for a better tomorrow. The subsidiaries in the Group dedicate 1% of their profits after tax to the Trust.

The Airport Junction Shopping Centre

The Airport Junction Shopping Center has totally changed the shopping landscape of Gaborone. This mall has quickly become one of city's leading shopping centres.

Town Lodge

The next stage in the developments at Airport Junction Shopping Centre is a 104 roomed hotel operated by City Lodge Group. The 4 star City Lodge Gaborone is the first venture of its kind outside of South Africa for the hotel group. This is a select service hotel offering breakfast only, but will form a relationship with the restaurants in Airport Junction Shopping Centre. The hotel has also created employment for 30 Batswana staff members. The addition of a hotel to the retail and lifestyle offering at Airport Junction is in line with strategies aimed at adding value to a number of stakeholders that include our clients and the City of Gaborone.

Successful migration of Legal Guard database

70,000

BIHL SURE! managed the successful migration of LG database from Insureman to Eskadenia. This was successfully carried through without any glitches, fault, within budget and timelines. A total of 70,000 clients' history was migrated with high precision and accuracy.

BIHL sponsors Joseph and the Amazing Technicoloured Dreamcoat

BIHL continued to support the production of 'Joseph and the Technicolor Dream Coat' as it returned for a second time in 2012. There were about 160 people involved in the production, from the stage actors, to choral singers including the technical crew manning the lights, stage decoration and sound. All the people in the production received a solid learning experience from the play. The experience of staging a professional production for people as young as 12 years old is part of BIHL's way of developing the arts in Botswana.

Launch of 'Here to Serve' – Client Services Strategy

In the last quarter of 2012, Botswana Life launched its new client service strategy under the banner 'Here to Serve'. With customers becoming more and more discerning, we can no longer rely on products alone for differentiation in the market. Service has become an even more important aspect of what we do, and we believe that the main aim of 'Here to Serve', is to ensure that we retain our customers and deepen their loyalty to Botswana Life, will create the right service culture that we need to maintain our leadership position in the industry. (More on page 66)

Bifm traditional music expo

The 9th annual Bifm Traditional Music Expo was held at Botswana Craft in December 2012. The annual event invests in local culture by giving renowned and award winning traditional musicians a platform to showcase their talent. The event is also aimed at increasing and promoting national pride in local music, dance and cuisine.

Launch of BIHL SURE!

Botswana Insurance Holdings Limited (BIHL) announced the entrant of a new player into the short term insurance market, its new subsidiary – BIHL Sure! which provides new short term insurance products driven by innovation, performance and convenience. This new venture is a natural extension of The Group's product offerings and services.

BIHL STRATEGY

Strategy

"BIHL's strategic goal is to become a broad-based financial services company offering a diverse range of products and services within Botswana and across the Southern African region." Gaffar Hassam GCEO BIHL.

By focusing consistently on the five pillars of our Strategy, we have achieved market-leading growth and have sustained the BIHL Group into a profitable company, with a healthy capital position, that is well placed to withstanding market volatility and sustain its performance over the long term.

The keystone of our Strategy is to leverage the collective muscle of our industry leading brands. Thus our new brand identity speaks to this with our new tag line proclaiming: "Strength in Numbers".

Our vision

Our vision is to be a significant regional financial services provider through optimisation of the Group's collective strength

What we do

We provide financial solutions to individual and institutional clients.

These solutions include individual, group, and short term insurance, savings and linked products, asset management, employee benefits.

Our roots

We are a leading financial services group, originally established as a life insurance company in 1975. We listed on the BSE in 1991. Our head office is in Gaborone and we have branches throughout Botswana.

Our values

Our core values are:

- Acting with intergrity;
- Growing shareholders' value; and superior performance;
- Leading with courage;
- Serving with pride; and
- Caring because there is respect for one another

Tapologo Estates

The Estate continues to be highly sought by tenants. The return that the Estate continues to provide is a clear demonstration of the Group's ability to find investments in the local market that provide long-term returns. This type of investment helped to ensure that our figures stayed healthy even under the current economic climate.

Timelines

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: Botswana Insurance Company starts development of the country's first major residential estate, Tapologo Estates, 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: 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.

1991 August: BIHL lists on the Botswana Stock Exchange Shares are floated at P0.22 and the issue is 273% over subscribed.

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: 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

BIHL STRATEGY
CONTINUED

Notable strategic activities in 2012:-

- Short term business (BIHL Sure!) launched - a new subsidiary introduced during the year, increasing participation in broader financial services and creating a new income stream
- Group identity refreshed - positioning the collective strength and synergies in the group
- Bifm Capital sale completed – this transaction created an opportunity to align strategic objectives with the Group
- New technology embedded across subsidiaries - to improve service provision and client retention
- Strengthened bancassurance relationships – the outcome improved income in these areas

The Group's Strategy is focused on sustaining profitability and competitiveness in the long term by protecting existing income streams, while identifying new growth avenues. A five pillar strategy provides navigation for the period 2012-2014 encompassing approaches to growth coupled with efficiencies.

Market Share Protection & Growth

Our aim is to maintain customer focus in order to defend market position in our established businesses, capturing market share in the newer subsidiaries, to create value for customers and shareholders.

Note: The group continues to dominate the life insurance market with its largest subsidiary (Botswana Life Insurance Limited) locally. Bifm also continues to hold a significant share in the asset management industry in Botswana. New product offering and improved service focus lead to greater customer retention during the year. See page 54 for more.

New Investments

BIHL intends to utilize available capital to stimulate growth through the identification of new opportunities in the wider financial services sector in Botswana.

Furthermore the Group seeks to find new growth beyond country borders with select partners.

Note: Existing investments (Letshego, FSG) contributed significantly to group's profitability. Refer to page 33.

Group Synergies

The strength of existing businesses and functions at BIHL, including resources and expertise, will be harnessed to derive greater value to the Group.

Note: The case study on page 38.

Operational Efficiencies

The BIHL Group strives to remove waste and unnecessary costs in all its operations, leading to improved customer focus and profitability.

Note: Technological enablement was a major focus in both established and newer businesses for improved efficiency and enhanced service. These included embedding Botswana Life and Bifm new back office systems. All short term products were successfully migrated to a single platform in the growing short term business. A group wide process improvement exercise to ensure efficiencies begun with Bifm in 2012 and will continue to other subsidiaries in 2013. Refer to Case study on page 30-37.

People

Being in the service industry, the size and profitability of this group to date is reflective of the human capital strength that exists at BIHL. Staff is viewed as critical to the required success. Thus, necessary enablement of a high performance culture and skills alignment becomes an imperative in supporting future growth.

Note: Performance management continues to be a core activity at BIHL. Leadership development focus. More on page 72 HR review.

Airport Junction Shopping Centre

The Airport Junction that opened its doors for trade in 2012 has totally changed the retail experience in Gaborone. In 2013 we expect the opening of a 4 Star hotel on the same development. This Hotel will be tenanted by major South African Brand City Lodge. This would be their first hotel outside of South Africa.

Timelines

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: 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: 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 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: Botswana Life 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.

BIHL STRATEGY
CONTINUED

Timelines

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 is the headquarters for the member states in the region. Bifm once more kept its promises by delivering this property on time and within budget.

In this year BLIL also launched the Bancassurance distribution channel.

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 Shopping Centre, also in Gaborone, commenced.

- Appointment of Botswana Life 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.

2011: Mr. Gaffar Hassam was appointed to the position of Group Chief Executive Officer effective on the 1st December 2011. Mr. Hassam has been a key part of the Executive team which crafted BIHL's new strategic direction to be a broad based financial services provider. As part of this strategy, he has successfully facilitated the purchase and integration of Legal Guard into BIHL. For a brief period before his appointment Hassam executed the functions of Group CEO in an acting capacity.

2012: BIHL refreshed Corporate Identity launched.
- BLIL sponsored Afcon football.
- Inaugural BIHL Thomas Tlou recipients get scholarships.
- Bifm Capital sale completed.
- BIHL SURE! by BIHL launched.

Plot 21

Plot 21 currently tenanted by The Office of the Ombudsman was Bifm's first PPP project. This project saw the Ministry of Public Works and Bifm coming together to deliver a signature building on time and within budget.

BOARD OF DIRECTORS

From left:
Gaffar Hassam, Batsho Dambe-Groth, Heinie Werth, Robert Dommisse, Chandra Chauhan, Thomas Schultz and Mahube Chilisana Mpugwa

Batsho Dambe-Groth (47) +++

Board Chairperson, BIHL

Batsho Dambe-Groth was appointed to the Board as an independent non-executive Director and Chairperson of the HR Committee on 25 March 2008. Following an acting period from 01 January 2009, she was appointed Chairperson of the Board in March 2010. She is Managing Director of Resource Logic which consults to a wide range of organisations on Human Resources and business solutions.

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

She is also a Director of Botswana Craft Marketing, Etsha Weavers Group, Boitekanelo, Gems of Kalahari, a Trustee of Ray of Hope Foundation and a Council Member of Maru A Pula School.

Ms. Dambe-Groth has a BSc (Hons) Occupational Psychology from the University of Wales Institute of Science and Technology and is a fellow of the Humphrey USA Fulbright Programme.

Heinie Werth (49) ++

Heinie Werth is Chief Executive Officer of Sanlam Emerging Markets Ltd, (formerly Sanlam Developing Markets). He was appointed to the BIHL Board on 15 May 2006. A Chartered Accountant, Mr. Werth joined Sanlam as an Investigative Accountant in 1990 and held various positions throughout the Group before being appointed to his current position in 2005.

He has a B. Accountancy and Honours degree from Stellenbosch University,an MBA (Cum Laude) from Stellenbosch University and an EDP from Manchester Business School.

Gaffar Hassam (37) +

Gaffar Hassam was appointed as the Chief Executive Officer of BIHL and became a member of the Board on 01 December 2011. He joined the Group in 2003 as Botswana Life Insurance Limited Finance Manager and BIHL Company Secretary. Prior to his current appointment, he held the positions of Head of Finance and Actuarial Services, Chief Operating Officer and Group Finance and Operations Officer at Botswana Life Insurance Limited. He was appointed to Acting CEO at BIHL in April 2011.

Mr. Hassam, who is also a Director of Letshego Holdings Limited, began his career with PricewaterhouseCoopers in Malawi and was transferred to the firm's Botswana office in 2000. He has an MBA (Oxford Brookes); is a Fellow of Association of Chartered Certified Accountants (FCCA) and a Member of Botswana Institute of Chartered Accountants (BICA).

Nominations Committee | Human Resources Committee | Audit Committee | Investment Committee | Independent Committee

\+ Executive; ++ Non-executive; +++ Independent non-executive

Chandra Chauhan (50) +++

Chairman, Bifm

Chandra Chauhan is a Chartered Accountant who trained and qualified with KPMG in the United Kingdom. A Zambian by birth, he became a naturalised citizen of Botswana and has over the years become a very successful entrepreneur and respected businessman.

He is currently the Managing Director of Sefalana Holding Company Limited, a listed company on the Botswana Stock Exchange, having been appointed to its Board in 2003 and assumed his current role shortly after in 2004.

He was responsible for turning around and restructuring Sefalana and has seen its market capitalisation increase from P64 million in 2004 to its current capitalization of P768 million. He was appointed to the BIHL Board on 20 April 2009.

He is the Chairperson of the Board of Botswana Insurance Fund Management (BIFM) and the Chairperson of the BIHL Human Resources Committee.

Mr. Chauhan has a B. Acc (Hons) from the University of Zimbabwe, ACA (England & Wales) and ACA (Botswana).

Mahube Chilisana Mpugwa (45) +++

Mahube Mpugwa is Chairman and General Manager of Puma Energy Botswana (formerly BP Botswana). He was appointed to the BIHL Board on 01 June 2010. He is also a Director of Master Timber. Mr. Mpugwa began his career in Public Relations at the Botswana Development Corporation and joined BP Botswana in 1998. Thereafter he held various positions within BP Botswana and BP South Africa before being appointed to his current position in 2008.

He has a BA (Hons) degree from the University of Windsor, Canada; a certificate in Business Leadership from the University of South Africa; and he graduated with an MBA from Stratchclyde University's Graduate school of Business under the UK Government's Chevening Scholarship.

Robert Dommisse (45) ++

Robert Dommisse is the Executive Director of Sanlam Emerging Markets. He was appointed to the BIHL Board on 20 November 2012. Mr. Dommisse is a chartered accountant who joined Sanlam in 1994 after completing his articles at Ernst & Young. He has worked across the Sanlam Group in various roles and served on the Boards of a number of Sanlam subsidiaries. He serves as a non-executive Director of Sanlam Namibia.

His further qualifications include an EDP (Manchester University), MBA (cum laude) from Stellenbosch University, a Diploma in Investment Management (RAU) and he is qualified as a Certified Financial Planner (CFP).

BOARD OF DIRECTORS
CONTINUED

Thomas Schultz (40) ++

Thomas Schultz is a senior partner in the Sanlam African Core Real Estate Fund, managing properties across sub-Saharan Africa. He was previously the Executive Head of Investment Management at Sanlam Emerging Markets. He was appointed to the BIHL Board on 01 October 2011. Educated in Germany and South Africa, Mr. Schultz began his career at Brait Merchant Bank's African Alliance Division before joining the Sanlam Group in 2006. He was appointed Chief Operating Officer of Sanlam Investment Management Africa in 2007.

A Chartered Financial Analyst (CFA), Mr. Schultz has a BA in Economics and Psychology from the University of the Witwatersrand (Wits); a BA Honours in Psychology from Rand Afrikaans University (RAU), an Honours Degree in Economics (Wits) and a Masters Degree.

Uttum Corea (65) +++

Uttum Corea is a Director at Colmore Investments as well as at Aeroc Holdings, Abacus House Botswana and Plot Four Eight Four Four (Pty) Ltd. He was appointed to the BIHL Board on 18 February 2008.

Mr. Corea is a Fellow Chartered Accountant of Sri Lanka (FCA) (S.L.) and FCA (Botswana) as well as PIAM (Harvard).

Themba Gamedze (54) ++

Themba Gamedze is Chief Executive of Strategic Projects at Sanlam Group. He was appointed to the BIHL Board on 20 November 2012. Mr. Gamedze began his career as a Senior Actuarial Analyst at Clerical Medical, Bristol, UK after lecturing pure mathematics at the University of Swaziland. Thereafter he held various positions with Metropolitan, Liberty Group and Sanlam before being appointed to his current position in 2013.

Mr. Gamedze serves as an independent Director on the Boards of Santam and Credit Guarantee.

Mr. Gamedze is an actuary by profession and a fellow of the Actuarial Society of South Africa.

Nominations Committee | Human Resources Committee | Audit Committee | Investment Committee | Independent Committee

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

Mpho Seboni (51) +++

Mpho Seboni is Managing Director at Spencer Stuart (South Africa), part of the global Spencer Stuart consultancy which advises clients on top leadership challenges. He has extensive experience as a Senior Management Consultant in the areas of business strategy, business process re-engineering, organization re-structuring, executive search and corporate governance. He was appointed to the BIHL Board on 14 September 2011.

A Botswana citizen, Mr. Seboni began his career as a Personnel Officer at Debswana and also worked for the Water Utilities Corporation in Gaborone as Corporation Secretary and Administration Manager before moving to South Africa in 1991.

Mr. Seboni has a BA (Economics & Psychology) from McGill University, Canada; and an M.Sc Management Studies from Oxford University.

John Hinchliffe (56) +++

Chairman, BLIL

John Hinchliffe heads John Hinchliffe Consultants, an accounting and consulting practice in Gaborone and also resident partner for DCDM Economic and Management Consultants. He was appointed to the BIHL Board on 01 June 2010.

He is also a Director of various other companies, including Development Securities (Pty) Limited; Nsenya (Pty) Limited; Portion 84 Mokolodi Sanctuary (Pty) Limited; Mokolodi Utilities (Pty) Limited; Kalahari Conservation Society; and Camphill Community Trust.

He is the Chairperson of the Board of Botswana Life Insurance Limited (BLIL) and BIHL Sure!. He has a BA (Econ) Honours degree from Manchester University, FCA (England & Wales) and he is a Fellow of the Botswana Institute of Chartered Accountants (BICA).

GROUP CHAIRPERSON'S REPORT

Batsho Dambe - Groth, Group Chairperson

"Having come through what I referred to in last year's report as 'a perfect storm,' BIHL made excellent progress in 2012, albeit in the face of still relatively adverse domestic and international economic conditions."

GROUP CHAIRPERSON'S REPORT

"We continue to monitor our performance as Board members and while there will always be room for improvement, I am pleased with our achievements. We will continue to strive to ensure that future Board appointments continue to take cognisance of the need for diversity in terms of skills and experience"

With Government employees having received a minimal salary increase, their disposable incomes are now severely constrained. This directly affects BIHL as civil servants and employees of parastatals constitute the bulk of our primary customers. However, even in these conditions, all three subsidiaries have borne the challenges well and their Boards, Management teams and every member of staff are to be commended for this. They have been extremely focused on what needs to be achieved, and understand that the only way forward, particularly for a company like BIHL, is to change.

With two major subsidiaries the dominant players, by far, in their markets, our strategy has to be both defensive (protect what we have) and offensive (find new areas of growth). That requires exceptional innovation, finding smarter ways of doing what we have always done, and leveraging the power of technology. All three operating companies implemented high-end, state-of-the-art systems. This investment is starting to bear fruit in terms of delivering greater operating efficiencies. More importantly, however, we now have unprecedented agility and flexibility, enabling us to respond innovatively to changing market conditions.

Performance

Our financial results do not tell the full story of the Group's performance in 2012. Looking at them from a purely profit perspective we have done well. Despite the many challenges experienced by each of our subsidiaries, we produced a P391 million profit. This has enabled us to declare a dividend of 20 thebe per share.

Although not as high as in the past, the Board has taken the view that in today's uncertain economic climate and against the backdrop of our strategic intentions, we will maintain healthy reserves that exceed the regulatory requirements for core capital. So for now, we will remain conservative. I am confident that this will change once the new processes and strategies that have been put in place start delivering the performance and results we are anticipating.

Sustainability

Our strategy is to consolidate what we have and still focus on growth. It's been a long-term goal based on the recognition that, for BIHL, significant growth is possible only through diversification. This strategy, which has the generous strategic and operational support of our major shareholder, Sanlam, is working well, and is starting to bear fruit.

The establishment of our short-term insurance company is one manifestation of this strategy. Although still in its infancy, it is clear that we have set up an enterprise that is already starting to shake up the market, but in a highly sustainable manner.

Perhaps the most advanced and visible of our diversification strategic initiatives is our activities in the property market. As evidenced by the Airport Junction and Rail Park developments, this initiative is doing extremely well. At present, property and our soon-to-be-launched Unit Trust initiatives are housed within Bifm, while our short-term loans activities fall within Botswana Life. This is a practical, cost-containment arrangement which could change in the future should the growth of these complementary activities warrant the establishment of their own substantive infrastructure.

I am particularly proud of the fact that we have managed to achieve our results and reduce our operating expenditure without having to resort to retrenchments. On the contrary, we have invested in recruiting and developing key skills required to make the Group more efficient.

Batsho Dambe-Groth joined the BIHL Board in 2008 as a non-executive Director. She was appointed as Chairperson of the Board in March 2010 following the resignation of previous Chairperson Mclean Letshwiti. Ms. Dambe-Groth brings to BIHL over 25 years of Services and Human Resources experience having worked in the mining, parastatal, insurance and financial services sectors.

I am especially pleased that the strengthening of the Group structure - the appointment of a Group CEO and the consolidation of key support functions such as HR, Finance and IT at Group level, as well as the appointment of independent Boards for each of the subsidiaries is starting to deliver the efficiencies we had anticipated. Not only does this better align us with the requirements of King III in terms of governance, it's also proving beneficial for the Group and the Board. At Holdings level, we now have a Board, supported by highly effective committees, that can focus its energies on strategy and sustainability matters.

At subsidiary level, each of the companies now has a Board with the time and the diverse spread of skills required to provide the guidance and assistance they deserve. I am constantly awed by, and highly appreciative of, the wisdom, unfailing enthusiasm and dedication of all our Board members.

We continue to monitor our performance as Board members and while there will always be room for improvement, I am pleased with our achievements. We will continue to strive to ensure that future Board appointments continue to take cognisance of the need for diversity in terms of skills and experience. This is not always easy to achieve. I personally would like to see a more equitable gender ratio on our Boards.

However, our guiding principle, always, is to appoint the best person for the job, be it to the Boards or at Executive Management level.

Corporate Citizenship

For the BIHL Group, our commitment to good corporate citizenship goes beyond ticking a box in our governance scorecard. We truly believe that the one percent of net profit set aside for the BIHL Trust every year can and should make a real and sustainable difference to our country, its people and the environment.

We have been looking at the most innovative ways to achieve this and I am confident we will start to see the fruits of our efforts in the future.

Looking ahead

The Group has done well but we cannot be complacent. Global economic uncertainties and instability look set to continue and that will definitely have an impact on Botswana and on BIHL.

However, in times of difficulty, you have to be responsibly bold. BIHL is bold –we've been bold in good times and we're bold in difficult times. We've been bold in the way we have revised our strategic direction and are now implementing changes that are transforming our business.

However, I believe we can do more. I believe we can make an even greater contribution to the development in Botswana, possibly through participation in more Public Private Partnerships with Government.

We will also continue to look for opportunities for growth outside the country. This will require finding the right partner and model that will ensure there is no dilution of BIHL's strength and position as a proudly Botswana company.

Our expectations are justifiably high. We have the strategy, the infrastructure, the people and the commitment to take the Group to the next level.

Batsho Dambe-Groth
Chairperson

GROUP EXECUTIVE MANAGEMENT

Gaffar Hassam (37)

Gaffar Hassam was appointed as the Chief Executive Officer of BIHL and became a member of the Board on 01 December 2011. He joined the Group in 2003 as Botswana Life Insurance Limited Finance Manager and BIHL Company Secretary. Prior to his current appointment, he held the positions of Head of Finance and Actuarial Services, Chief Operating Officer and Group Finance and Operations Officer at Botswana Life Insurance Limited. He was appointed to Acting CEO at BIHL in April 2011.

Mr. Hassam, who is also a Director of Letshego Holdings Limited, began his career with PricewaterhouseCoopers in Malawi and was transferred to the firm's Botswana office in 2000.

He has an MBA (Oxford Brookes); is a Fellow of Association of Chartered Certified Accountants (FCCA) and a Member of Botswana Institute of Chartered Accountants (BICA).

Tiny Matilda Kgatlwane (48)

Tiny Matilda Kgatlwane was appointed CEO of Botswana Insurance Fund Management in August of 2010, joining the growing number of female CEOs in the country. She has a wealth of experience in the financial and asset management industry having been with the Debswana Pension Fund prior to joining BIHL.

Ms. Kgatlwane's career highlights include having held the position of Country Treasurer at Barclays Bank Botswana from 2001 to 2004 and Head of Retail Performance – Sales from 2004 to 2005. She then joined Kgalagadi Breweries Limited in their Sales and Marketing department from April 2005 until May 2006 when she held her position at Debswana Pension Fund.

Ms. Kgatlwane is a Chartered Accountant who also holds a Bachelor of Commerce degree with majors in Accounting and Management. She is also an Associate of the Botswana Institute of Bankers.

Catherine Lesetedi - Letegele (45)

Catherine Lesetedi - Letegele is the CEO of Botswana Life Insurance Limited, appointed in July 2010. She first joined BIHL Group in June of 1992 as a Supervisor and was promoted to Assistant Manager in 1998 and then became a Divisional Manager in 2000. She left BLIL and joined AON Botswana in October 2004 until August 2006. Ms. Lestedi-Letegele then returned to Botswana Life Insurance Limited in 2007 and assumed the role of Head of High Value Corporate Business until March 2010 when she was appointed Acting CEO of BLIL.

She currently sits on two Boards, Funeral Services Group Limited, a listed company on the Botswana Stock Exchange, as well as FMRE a re-insurance company. She is also the President of the Insurance Council of Botswana. She has a BA in Statistics and Demography from the University of Botswana as well as professional qualification in Advanced Insurance Practice from UNISA.

John Leslie Haenen (57)

John Haenen was appointed the CEO of BIHL Sure! in February 2012, overseeing the short-term insurance division of BIHL. Before joining BIHL, Mr. Haenen was based in Tanzania as CEO of Heritage Insurance, the largest insurance company in Tanzania.

Mr. Haenen first cut his teeth in the insurance industry in 1974 at Guardian National Insurance Company. He went on to assume more senior roles in other insurance companies and brokerage firms which include Associated Financial Services and BoE Insurance Company Limited.

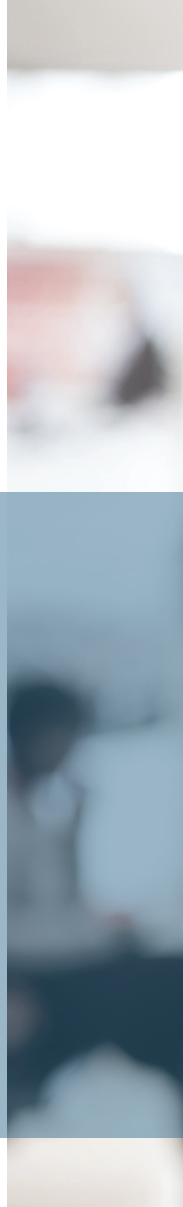
Mr. Haenen holds a Bachelor of Commerce majoring in Organisational Psychology and Economics. He is also an Associate of the Chartered Insurance Institute and a fellow of the Society of Risk Managers.

Alicia Mokone (54)

Alicia Mokone is the Group Head of IT of BIHL and was appointed to this role in August 2010, where she oversees all IT related matters of the entire business. Ms. Mokone first joined the BIHL Group in August 2009 as the Head of IT for Botswana Life Insurance Limited. Ms. Mokone's career highlights include working for the Ministry of Communications, Science and Technology as the Deputy Permanent Secretary from 2006 – 2010. She was also the Chairperson of Intergovernmental Taskforce for the provision of access to undersea fibre optic cables to 22 African countries. Ms. Mokone's career in Telecommunications and ICT spans nineteen years where she worked her way up the ranks in the Government of Botswana.

Ms. Mokone holds a MSc Business Systems Analysis and Design. She also has various professional qualifications on Policy Development from Harvard School of Government.

From left:
Tiny Matilda Kgatlwane, Catherine Lesetedi - Letegele, Gaffar Hassam, John Leslie Haenen, and Alicia Mokone



GROUP CHIEF EXECUTIVE REPORT

Gaffar Hassam, Group Chief Executive Officer

- **11% increase in Revenue**
- **21% growth in Assets under Management**
- **15% decrease in Operating Profit**
- **BIHL Sure! fully operational**
- **Diversification and expansion strategy on track**

In many respects, 2012 was an exceptional year for BIHL. Against the backdrop of the difficult economic climate both within Botswana and internationally and other external and internal challenges, we succeeded in delivering a solid financial performance. More importantly, our long-term diversification strategy started to come together and the benefits of this are already starting to be felt. It is becoming increasingly clear that the new BIHL Group is well on track to be larger than the sum of its parts.

GROUP CHIEF EXECUTIVE REPORT

Financial performance

Our financial performance in the review period was gratifying, despite the fact that our profitability is P485 million (8%) down on the total profit achieved in 2011.

There are a number of non-recurring reasons for this. The primary factor was the regulatory challenge we faced in Zambia which required us to reduce our 70% shareholding in Aflife Zambia to just 49%. As a result, our income from our Zambian investment was reduced by 21%.

In addition profit from the sale of our 21% of Aflife delivered a once-off boost to our 2011 result that is non-recurring.

With these two factors excluded from our 2012 results, BIHL would have recorded an increase in profits in the review period – no mean feat considering we were investing heavily in building the short term insurance and the unit trusts operations. For much of the review period, neither operation was generating any income. This has changed and going forward, these fledgling businesses should start to generate good profits to contribute to the Group's bottom line.

Meanwhile, Group revenues grew by some 11%, largely as a result of the sterling performance of Botswana Life; while Bifm increased their assets under management to above the P20-billion mark for the first time – giving the company the platform required to grow its fee income.

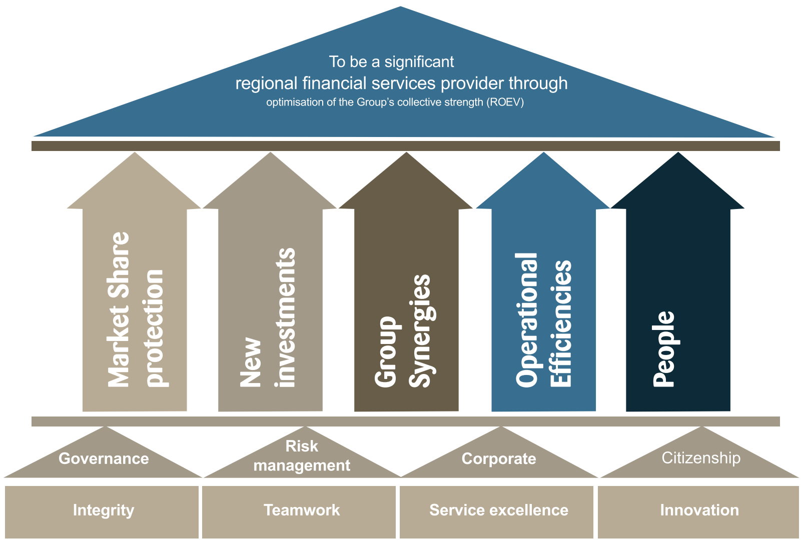
Strategy Review

BIHL's oft-repeated strategic goal is to become a broad-based financial services company offering a diverse range of products and services within Botswana and across the Southern African region.

Before considering the progress we have made towards achieving that goal, it is worth reminding ourselves of why we adopted this strategy in the first place.

Traditionally BIHL has functioned purely as a holdings company with two large, independently functioning operating subsidiaries: a life company (Botswana Life) and an asset management company, Bifm. Both are exceptionally successful and are the dominant players in their market sectors. They are also

> The group's strategy is focused on sustaining profitability and competitiveness in the long term by protecting existing income streams, while identifying new growth avenues. A five pillar strategy provides navigation for the period 2012-2014 encompassing approaches to growth coupled with efficiencies.



both under extreme pressure to defend their market share against an ever growing number of new and increasingly voracious competitors. In a market the size of Botswana's, that doesn't leave much room to manoeuvre.

We at BIHL believe that attack is the best form of defence. Our approach is to do this in a way that will not only be sustainable, but will ultimately deliver enhanced value to all our stakeholders. Indeed, that value is already starting to be realised.

When we looked at where we want to be two to three years from now, what was very clear was we were not leveraging our collective strength as a Group. Now as our strategy translates into reality, we are starting to use that strength to protect and defend our traditional operations, while simultaneously diversifying into new market sectors - property, unsecured loans, collective investments and private equity. At the same time, there are gaps in our current offering that need to be filled if we are to be a truly broad-based financial services company.

So, for example, in the protection space we offer life assurance, but we didn't have short-term insurance. The launch of BIHL Sure! has thus closed the short-term insurance gap.

Gaffar Hassam joined the Group in 2003 as Botswana Life's Finance Manager and Company Secretary. In December 2011 he was appointed as the Group CEO after acting in the Role from April of the same year. Mr. Hassam holds an MBA from Oxford Brookes, is a fellow of the Association of Chartered Certified Accountants (FCCA). With ten years executive experience in the BIHL Group Mr. Hassam is well versed in the working of the business and has been instrumental in shaping the current performance of BIHL.

We also don't have any transactional types of financial services and weren't able to offer both secured and unsecured lending products. This is an area we have focused on over the past two years through our investment in Letshego Holdings Limited.

Our goal was to increase that investment to a significant stake so that we can play an active role in their strategic direction. We have reached that level with our 25% shareholding. This partnership has also provided us with an opportunity to start distributing the life insurance product through their operations. This is confined to Botswana at present.

We are also pleased with the continual relationship with the Funeral Services Group(FSG),wherein we have an associate shareholding of 28% and are the distributors of Botswana Life Funeral Products. We are also looking at various options to close our gap in the transactional banking space, to leverage on the bancassurance products potentially building on our relationships with our banking partners, Banc ABC and Standard Chartered Bank.

Meanwhile, we remain as committed as ever to the growth and sustainability of our existing operations.

GROUP CHIEF EXECUTIVE REPORT
CONTINUED

Botswana Life

The life business controls more than 80 percent of its market – a market that is all but saturated and becoming increasingly competitive. We are not going to be able to achieve the growth we aspire to by capturing new markets or even by growing our traditional customer base.

Therefore, we have to work smarter. We have invested a considerable sum in obtaining and implementing a back-office, support system that will enable us to do just that. It is a system that will enable us to defend our market share by better understanding our customers' needs; quickly introducing innovative new products and new service channels that meet those needs; cross-selling and up-selling to our existing customers; delivering exceptional service, and identifying niche market segments that we might not have focused on before. Traditionally, we have distributed our products through brokers and agents. They have served us well, particularly in the lower and mid-level of the market. But targeting the high end of the market requires a different approach and that is an area we will be looking at in the future.

In addition, it is clear that when it comes to market penetration, the life industry has a lot to learn from our banking counterparts. By partnering with institutions such as Letshego, Standard Chartered Bank and Banc ABC in a mutually-beneficial bancassurance model, we are able to reach a far wider spectrum of potential customers than ever before.

Botswana Life – and its competitors – are facing a serious challenge, one that could undermine the entire life assurance industry in Botswana. There is an acute shortage of Pula-based long term matching assets for the annuity liabilities. This is not a new issue for the industry, but it is becoming increasingly acute.

There is a real danger that we get to the point where we are unable to underwrite annuities because we do not have sufficient matching assets. What is needed are long- dated Government bonds. Botswana Life and BIHL in concert with fellow members of the Life Assurance Industry will be lobbying the Government on this very urgent issue. In the meantime, we will continue to structure corporate bonds to match our liability. However, corporate bonds, unlike Government bonds, come with credit risk. Issuing corporate bonds requires us to put aside additional capital – capital that we one day may not have. That is why it is very important that we have access to Government bonds.

Town Lodge

The next stage in the developments at Airport Junction Shopping Centre is a 104 roomed hotel operated by City Lodge Group. The 4 star City Lodge Gaborone is the first venture of its kind outside of South Africa for the hotel group. This is a select service hotel offering breakfast only, but will form a relationship with the restaurants in Airport Junction Shopping Centre. The hotel has also created employment for 30 Batswana staff members. The addition of a hotel to the retail and lifestyle offering at Airport Junction is in line with strategies aimed at adding value to a number of stakeholders that include our clients and the City of Gaborone.

Bifm

Our asset management company is also operating in a saturated and highly competitive market that is unlikely to deliver much organic growth. Here too, our strategy is to defend our market-leader position. We will achieve this by nurturing our relationships, delivering excellent service and delivering the returns our clients expect – and then a little more.

With this in mind, we reviewed our offshore strategy and appointed new offshore Managers. The new panel, which consists of highly reputable organisations, appears to be better equipped to deliver on our revised strategy. We are confident that they will be able to outperform the benchmarks.

With service delivery one of our key drivers, we spent 2012 embedding the new back-office system. The original Curo system (previously owned and developed by JP Morgan) is used by many of the world's leading fund management companies.

Part of our challenge in 2012 was to integrate the system seamlessly with our existing systems, and to ensure that our clients – and our own people - understood our reports. It took some time to achieve the levels of efficiency we had hoped for at first. By the end of the reporting period, significant strides had been made. Not only are we now more efficient, but our focus is able to shift to the kinds of tasks that add real value to our clients and our organisation.

However, it has been clear for some years that if we are to achieve any real growth going forward, Bifm will have to look outside its traditional asset management activities to alternative investments. One of the most successful of these is property. The opening of the Airport Junction development was an exceptionally proud achievement. Its success effectively answers the critics who declared that Gaborone could not handle yet another shopping mall as well as testifying to our ability to pick the right niche investments.

"We at BIHL believe that attack is the best form of defence. Our approach is to do this in a way that will not only be sustainable, but will ultimately deliver enhanced value to all our stakeholders. Indeed, that value is already starting to be realised."

However, we need to work closely with Government and establish new Public Private Partnerships, similar to those which resulted in the successful development of the new SADC building and the building housing the Office of the Ombudsman and the Lands Tribunal.

A second area in which Bifm can achieve growth is to provide a short- to medium-term investment avenue for the excess cash reserves of the

GROUP CHIEF EXECUTIVE REPORT
CONTINUED

country's corporate sector as well as high net worth individuals. Our new unit trust offering will tap into that market.

We are also proceeding with our plans to roll out a private equity Africa Fund that will give investors an opportunity to get involved in potential high-return investments in Africa.

BIHL Sure!

BIHL Sure! only became operational towards the middle of the review period. We immediately faced significant pressure in the form of a totally unsustainable price war in the commercial insurance space. While we have refused to be drawn into this destructive war of attrition, it has nonetheless negatively affected our initial projections for the company. However, on the personal insurance side, we started to gain tremendous traction in the third quarter of the year. One of the key reasons for this is the investment we made in getting the best possible systems in place. This has enabled us to deliver truly impressive service levels and turnaround times that were previously unheard of in Botswana.

Meanwhile, the Legal Guard offering continues to soar. The Legal Guard team set themselves challenging targets for the review period, and surpassed them. As a result, BIHL Sure! – a virtual start-up company in 2012 - is now ranked as the sixth largest short-term insurer in Botswana. And we are confident that this will improve in the 2013 financial year.

Corporate Social Investment and Citizen Economic Empowerment

As a Botswana company and a good corporate citizen, we are continuously aware of our obligation to make a tangible contribution to the growth and development of our country. This, we believe, can best be met through our Corporate Social Investment (CSI) and Citizen Economic Empowerment (CEE) programmes. With 1% of our profits directed at social responsibility activities, we have spent considerable time identifying CSI projects that would be able to use our investment to make as large an impact as possible. Initially the BIHL Trust opted for a model that required would-be recipients to submit proposals and motivations for funding. However, experience has now shown that many of the organisations and individuals with the greatest need do not have the wherewithal to compile and submit this kind of proposal. We are now in the process of developing a mechanism that will enable us to operate at a grassroots level and to understand and identify truly worthy projects that meet our sustainability criteria. Our goal, ultimately, is to support projects that assist communities and individuals to empower themselves and to become self-supporting.

In addition, we continued our support of the Professor Thomas Tlou Scholarship and Maru-a-Pula School's Orphan and Vulnerable Children Scholarships Fund. Both are exceptionally worthy projects that are making the most important investment any organisation can make – into the lives of young people who could well go on to become this nation's future leaders, thanks to the opportunities we provide today.

Re a leboga…

Setswana has just the right phrases when you need to describe how you feel. “Re a leboga” means “we are grateful”. This we believe describes best the relationship we have with our Staff, Customers, Suppliers and Shareholders. A simple ‘thank you’ just does not adequately cover the gratitude we have for those we work with and work for.

So to our Board of Directors, who individually and collectively spend days of their valuable time leading and guiding this Group we acknowledge the effort and the time you spend. We are honoured to have you on our team.

To the many Suppliers to the BIHL Group, we value the contribution you make to our Business. Sometimes the clock does not always favour us and more often than not our army of suppliers deliver the world class services that we as a Group are known for. We count suppliers, as part of our “Strength in Numbers”, without you our lives would be very difficult indeed.

Our loyal Staff must be acknowledged and noted as key to our successes over this year and over our 38 years of existence. We cannot thank their families enough too. As many of our colleagues spend so much of their personal time ensuring deadlines and services are met in the quest to satisfy our Clients and Shareholders.

Our ability to satisfy Client expectations can only be measured by how well we retain Clients. Their loyalty to the BIHL Group and our services and products will never be taken for granted. We understand the extremely competitive markets that we are in and thus are honoured to be able to continue to have such great clients that have allowed us to be the great Botswana Company that we are today.

Finally, I thank all our Partners - the brokers and the institutions that distribute our products. Without their support, BIHL would simply not be the successful company it is today.

Re a leboga.

We are also looking into various projects aimed at increasing our commitment to the protection and sustainability of our environment. In addition, we are looking at instituting programmes internally that would reduce our carbon footprint and promote energy saving and recycling as part of our corporate culture.

On the CEE front, we are developing a programme that will formalise our ongoing efforts to ensure meaningful economic empowerment of citizens through the transfer of skills, technology and capacity as well as other measures still under consideration.

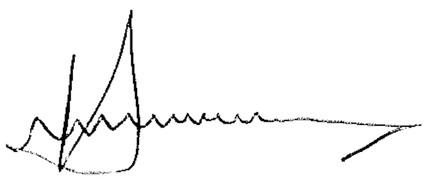
Human Resources

Recruiting and retaining the skilled resources required in a sophisticated environment such as ours remains a challenge. We are therefore paying increasing attention to providing meaningful career development opportunities to our own staff. However, we also have to accept – and prepare for - the fact that we will lose people, some of whom, occasionally, will be key individuals. Succession planning is therefore a strategic imperative for the Group and our subsidiaries. We have leadership development programmes in place which are operated by the Sanlam Academy. Ten of our people were involved in these programmes last year. Our relationship with Sanlam also enables us to offer our people career development opportunities through short secondments there.

BIHL has adopted a flat management structure that makes succession planning a little more complex than would otherwise be the case. Nevertheless, we believe the advantages of this structure – it makes communication through the organisation far simpler and is also exceptionally cost efficient – outweigh the potential negatives.

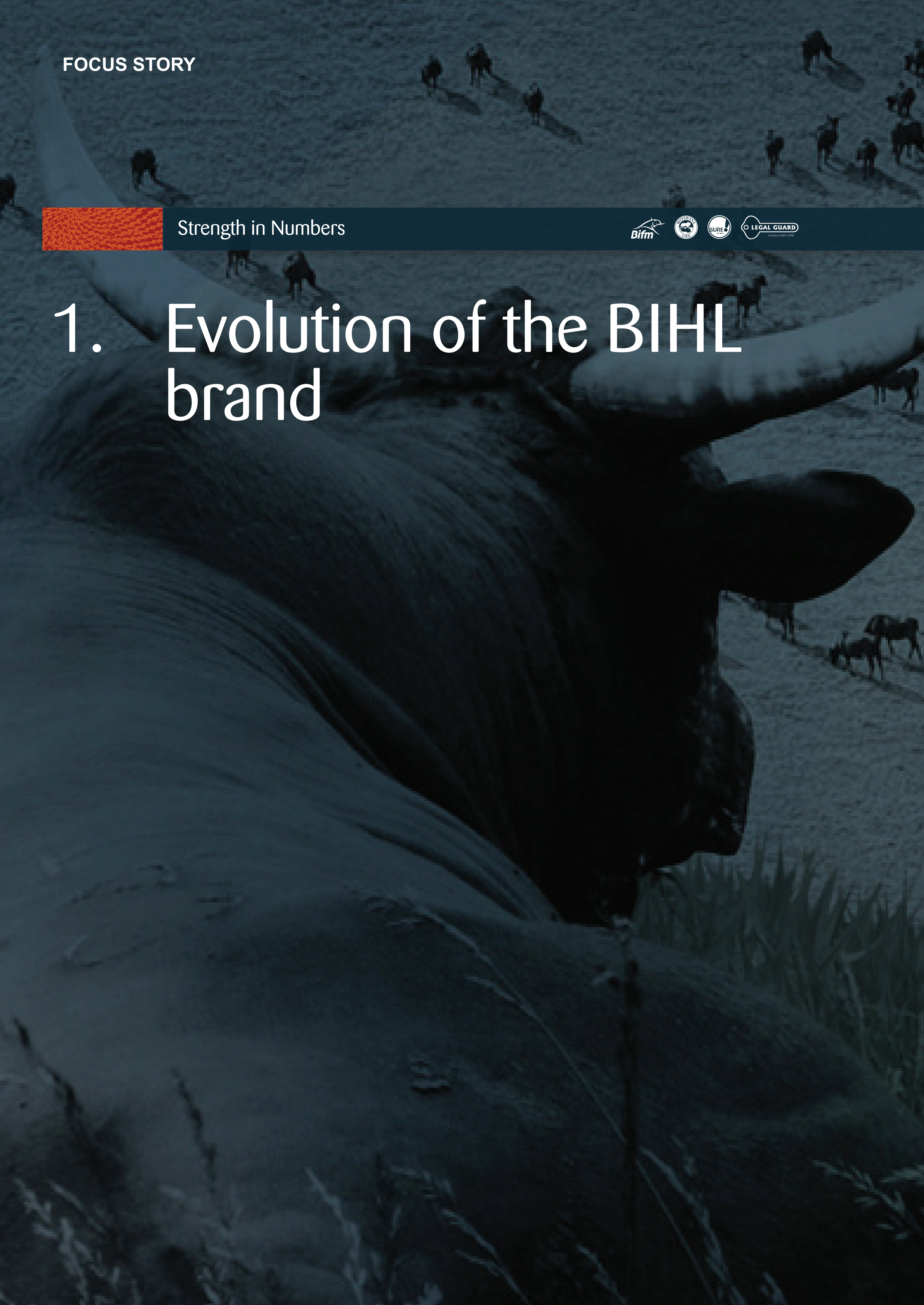
Conclusion

We have made a big effort in this annual report to be as user friendly as possible. It is full of information and we have made a huge effort to present it as clearly and concisely as possible. We hope you find this document to your satisfaction.



Gaffar Hassam
BIHL Group CEO

1. Evolution of the BIHL brand



The “bull” remains very central to our new - refreshed icon.

Left: Outgoing BIHL logo. Right: New BIHL logo

In our last annual report we featured for the very last time our famous twin blue bulls BIHL logo. This logo served us for much of our formative years as we built what today is considered as Botswana’s leading Financial Services Company.

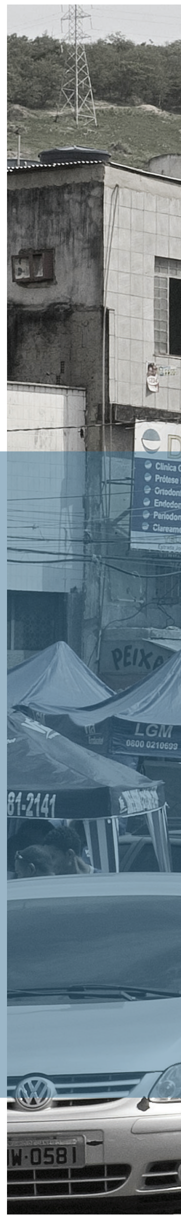
The “bull” remains very central to our new-refreshed icon. The bull, a “wet nosed God” helped start the journey of Botswana and is the traditional identity of who Batswana are. The Bull in particular is not only an important cultural icon but also a good omen within the financial services industry. The Bull provides the Group inspiration to continue to take bold strides alongside a country that has developed into a regional powerhouse.

For nearly 40 years BIHL has made enormous contribution to the financial services landscape of Botswana. In our stable today we boast market leaders Botswana Life and Bifm. Over the years this stable has continued to grow as we expand further across the Financial Services spectrum. The introduction of subsidiaries BIHL SURE! and shortly Bifm Unit Trust and our continued investments into businesses like Letshego Holdings and Funeral Services Group (FSG) has all contributed to creating a very different BIHL from years gone by.

Our strength to ride the turbulent waves that the economic world is currently experiencing comes from our ability to pull spread the load across the entire “herd” at BIHL. Our Strength comes from our collective Group. Our new Tag line aptly sums this up as “Strength in Numbers”. Here “Numbers” having a double meaning; our “Numbers” have always been strong for the long haul and the strength of these numbers comes from the ability of the ‘herd’ to draw collective benefits and opportunities from each other.

The new look of BIHL tries to encompass what BIHL is today: modern, stable, forward looking, innovative and world class. The new stylized “BIHL bull” illustrates a positive stance and includes the full title of our name: BIHL Group.

Our “herd” is now ready to confidently march into the future with its new coat.



FINANCIAL REVIEW

Emerging markets' growth rates have moderated in 2012, but still exceeds those achieved in developed economies

Revenue

- Net premium income increased by 10% to P 1.9 billion
- Fee income decreased by 33% to P74.7 million
- Value of new business decreased by 14% to P99.3 million

Earnings

- Operating profit decreased by 15% to P 232.8 million
- Core earnings decreased by 11% to P 270.7 million
- Profit attributable to equity holders decreased by 16% to P 390.9 million

Assets under management

- Assets under management increased by 21% to P21.6 billion

Embedded Value

- Embedded value increased by 7% to d P2.6 billion

Dividends

- P 157.4 million paid as dividends during the year (2011: P 185.5 million)
- Final normal dividend proposed of 20 thebe per share (gross of tax)

Solvency

- Business well capitalised, required capital covered 6.8 times (December 2011: 5.9 times)

Economic and Financial markets review

The global economic data generally improved during 2012. Although emerging markets' growth rates have moderated, it still exceeds those achieved in developed economies. Overall average GDP growth is expected to reach 3.5 percent in 2013, and to further strengthen to 4.1 percent in 2014. Equities rallied during 2012 on the back of improving economic data and unorthodox monetary policies adopted by central banks. The global economic recovery however remains fragile due to policy uncertainty and the ongoing European sovereign debt crisis. Low inflation and uncomfortably high unemployment rates in major world economies suggest that loose monetary policy stances are likely to be maintained in 2013.

Locally, GDP figures for 2012 Q3 show strong economic growth of 7.7% over the 12 months to September 2012. The non-mining private sector continued to perform well, with growth of 11.6%. The diamond market remains weak and has been hit by weak demand from the traditional markets in the USA and Europe, as well as slower growth in China and India, which have recently been driving demand growth. There is financial pressure on consumer households with reduced expenditure on insurance products. Although conditions are expected to improve in 2013, there is unlikely to be a dramatic change.

FINANCIAL REVIEW
CONTINUED

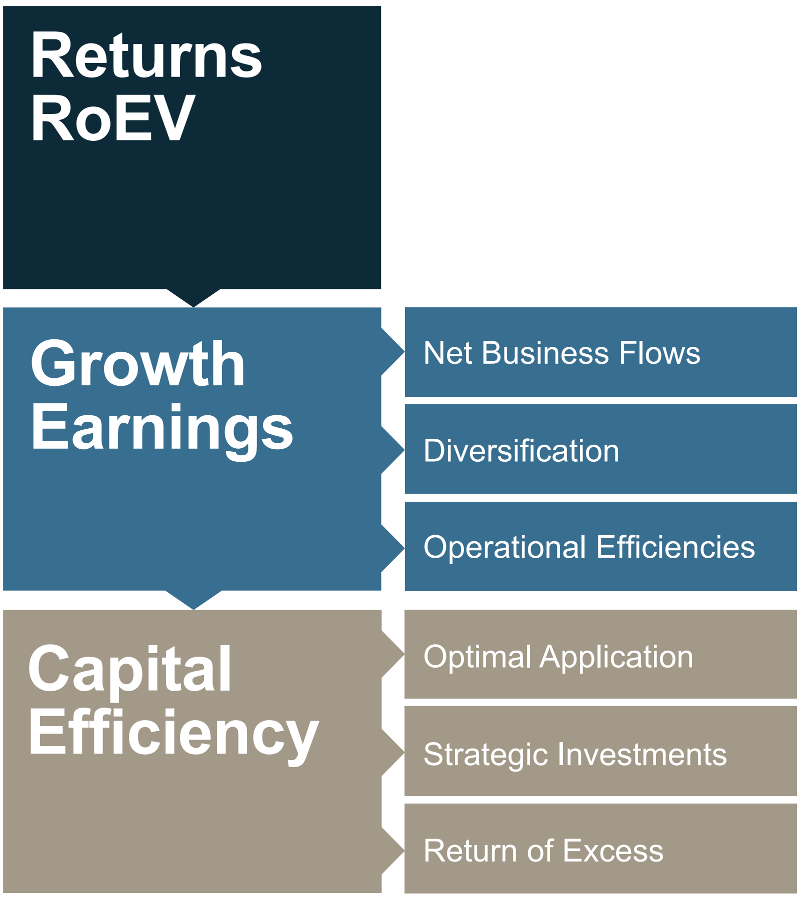
Overview
The review of the Group's financial performance and position should be read together with the Group's annual financial statements on page 121 - 222.

The BIHL Group produced a solid performance for the year despite a decline on operating profit before tax (OPBT) of 15%. The decline is as a result of continued pressure on household income as well as the sale of the 21% stake in the Zambian operation. The Group invested heavily in the short - term insurance business and the Unit Trusts offering, which did not generate revenue during the period under review. The Legal Guard business continues to surpass expectation.

Our income from the associate company, Letshego Holdings Limited has increased significantly due to good underlying performance of the associate as well as our increased shareholding.

Group Embedded Value (ROEV)
The primary performance target of the BIHL Group is to optimise shareholder value through maximising the return on Group Embedded Value (ROEV) 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.

The interaction of these strategies can be illustrated as follows:



Overall growth in new business volumes

- Total new business increased by 14% to P1.2 billion.
- Value of new business decreased by 14% to P99.3 million.
- Required capital covered 6.8 times.

Value of new business

P99 million

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

- Shareholder value (all strategic focus areas)
- Business volumes (future earnings growth)
- Earnings (earnings growth and costs efficiencies)
- Capital and solvency

Shareholder Value

The BIHL Group delivered a solid and stable performance in 2012 despite continued uncertainties in world financial markets. Our conservative investment strategy for shareholder assets and prudent management approach mean that our business remains financially strong. The current financial strength of the group is testament to this resilience. Financial strength is critically 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 6.8 times (December 2011: 5.9 times)

Business volumes

	2012 P'000	2011 P'000
Group summary		
Life insurance business:		
Recurring	136,049	174,088
Single	1,062,581	875,244
Total New Business	1,198,630	1,049,332
New recurring	716,203	691,796
Single	(967)	-
Total Existing Business	715,236	691,796
Outflows	(887,623)	(925,439)
Net funds flows	1,026,243	815,689
Asset management Business		
Inflows	1,092,850	687,930
Outflows	(674,515)	(2,012,174)
Net Funds Flow	418,335	(1,324,244)
Total net funds flows	1,444,578	(508,555)

The Group achieved an overall growth of 14% in new business volumes, a solid performance in the difficult operating environment in 2012. The asset management business has also been successful in retaining funds under management. The assets under management increased to P21.6 billion by year end. The strategic focus on the quality of new business written is reflected in good retention levels and continuance of strong net fund inflows.

Value of new business and new business margin

	2012 P'000	2011 P'000
Value of new covered business for the year ended 31 December 2012		
Value of new covered business	99,307	115,305
Present value of new business premiums	1,598,721	1,497,500
New covered business margin	6.21%	7.70%

The value of new life business decreased by 14% to P99.3 million mainly due to low sales volumes on the individual life business as a result of pressure on individual disposable income. New business margins remain at satisfactory levels.

FINANCIAL REVIEW
CONTINUED

Earnings

The life insurance operating profit decreased by 3% to P239.5 million primarily as a result of pressure on household disposable incomes. The net premium income increased by 9% over prior period. The growth was driven mainly by the annuity portfolio which grew by 26% year on year. The asset management results were affected by the sale of the 21% stake held in our Zambian associate as well as the increased costs of regulatory compliance. The short term insurance loss is as a result of the expansion into short term insurance industry in order to lay a foundation for future sources of revenue. The Group expenses are high due to the investments in this project and investments in improved IT systems to further improve customer service. Investment income, which comprises interest and dividend income, increased by 24% to P38 million. Investment gains reduced by 79% to P12.1 million due to continued volatility in the global markets.

The Group's share of profit in associates and joint ventures significantly increased to P196.5 million, due to an increased stake in one of the associates in 2011 and good underlying performance.

Analysis of earnings

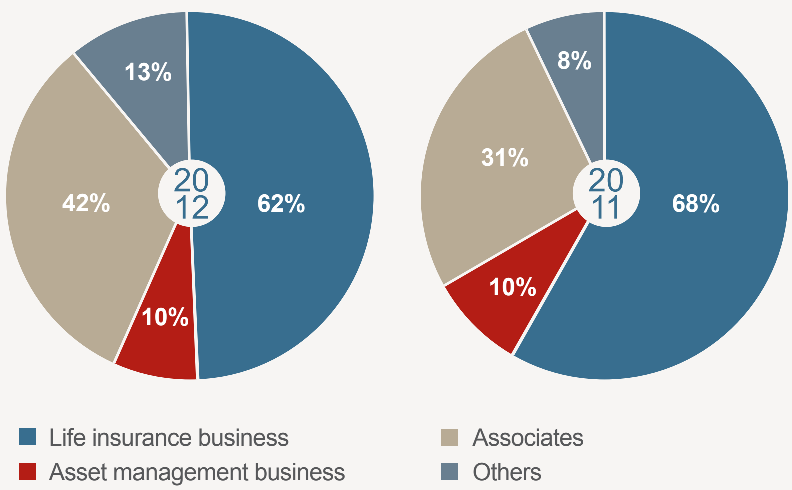
	31 Dec 2012 P'000	31 Dec 2011 P'000	% change
Operating profit	232,764	273,146	(15%)
Investment income on shareholders' assets	37,957	30,612	24%
Core earnings	270,721	303,758	(11%)
Profit on sale of subsidiary	6,075	33,785	(100%)
Share of profit of associates and joint ventures net of tax	196,482	133,872	47%
Investment gains on shareholders' assets	12,054	56,998	(79%)
Profit before tax	485,331	528,413	(8%)
Tax	(90,936)	(57,083)	59%
Profit after tax	394,395	471,330	(16%)
Non-controlling interests	(3,477)	(8,357)	(58%)
Profit attributable to ordinary shareholders	390,918	462,973	(16%)

Segment Contribution

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

	2012 P'000	2011 P'000
Life insurance business	294,445	296,783
Asset management	39,812	42,765
Other	(63,536)	(35,790)
Total core earnings	270,721	303,758
Associates income net of tax	196,482	133,872
Total earnings	467,203	437,630

Contribution to earnings



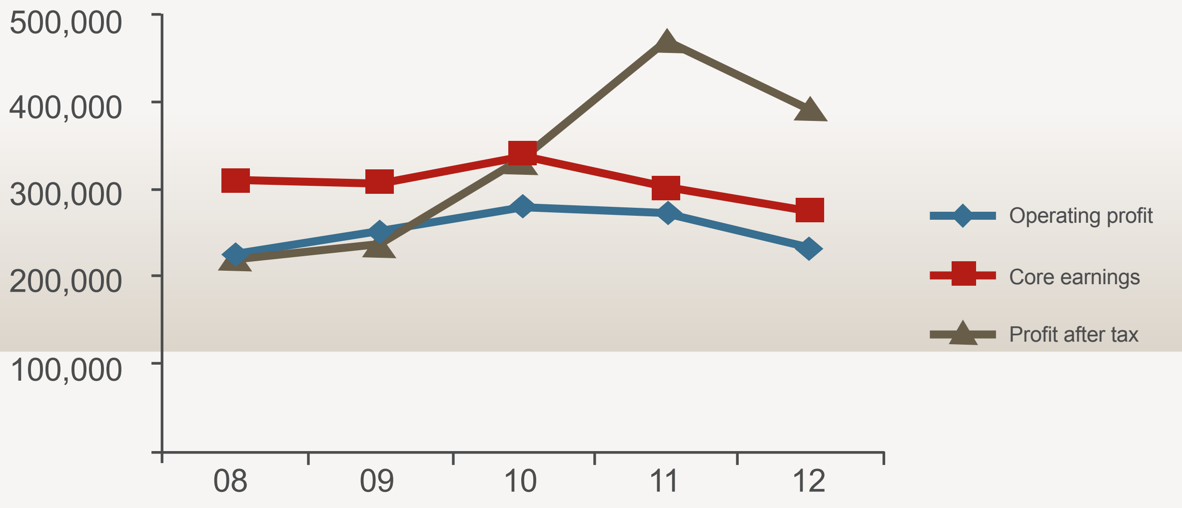
Five year review of core earnings

The performance over the past five years is as follows:

	2012 P'000	2011 P'000	2010 P'000	2009 P'000	2008 P'000
Operating profit	232,764	273,146	281,071	250,590	222,442
Investment income on shareholders' assets	37,957	30,612	58,086	57,397	88,395
Core earnings	270,721	303,758	339,157	307,987	310,837
Profit on sale of subsidiary	6,075	33,785	-	-	-
Share of profits of associates , net of tax	196,482	133,872	72,217	26,821	9,802
Investment surpluses/(losses) on shareholders' assets	12,054	56,998	(9,435)	(77,591)	(85,140)
Tax	(90,936)	(57,083)	(69,456)	(19,544)	(14,037)
Profit after tax	394,395	471,330	332,483	237,673	221,462
Non-controlling interest	(3,477)	(8,357)	(9,933)	(10,370)	(19,205)
Profit attributable to ordinary equity holders of the parent	390,918	462,973	322,550	227,303	202,257

Five year review - Earnings

P'000



Return on embedded value

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

	2012 P'000	2011 P'000
Embedded value at end of year	2,576,543	2,409,662
Embedded value at beginning of year	2,409,662	2,406,628
Change in embedded value	166,881	3,034
Dividends paid	157,400	185,520
Embedded value earnings	324,281	185,554
Return on embedded value (ROEV)% p.a.	13%	8%

FINANCIAL REVIEW
CONTINUED

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.

Capital and Solvency

Optimal capital management remains the key strategic priority for the Group, with specific focus on the following:

a. Optimising the capital allocated to Group operations
b. Optimal utilization of discretionary capital

The Group's preference remains to invest its discretionary capital in value-adding growth opportunities, with specific focus on the indentified growth markets. Over the past years the Group utilised some P20 million for this purpose:

- The setting up of the short term insurance business. The business was launched in April 2012.

- The setting up of the Collective Investment Unit (CIU) offering which will be launched to the market in April 2013.

In line with the Group's capital management philosophy, any excess capital that will not be applied will be returned to shareholders.

The life insurance business was sufficiently capitalised as at the end of December 2012.

Dividend

Sustainable growth in dividend payments is an important consideration for the Board in determining the dividend for the year. The Board uses operating profit as a guideline in setting the level of normal dividend, subject to the Group's liquidity and solvency requirements. The Directors have resolved to award a final dividend for the period, net of tax, of 18.50 thebe per share.

The dividend payment for the year, **net of tax** is as follows;

	Interim already paid	Final	31 Dec 2012 (Interim & final)	31 Dec 2011 Interim & final)
Normal dividend (Thebe)	13.88	18.50	32.40	61.05
	13.88	18.50	32.40	61.05

EMBEDDED VALUE REPORT

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 2012, 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

	31 Dec 2012 P'000	31 Dec 2011 P'000
Shareholders' net assets excluding goodwill	1,829,874	1,575,711
Fair value adjustments	210,128	334,865
	2,040,002	1,910,576
Value of in-force business	536,541	499,086
Value before cost of capital	708,461	642,589
Fair value adjustments	(63,027)	(54,132)
Cost of capital	(108,893)	(89,371)
Embedded value	2,576,543	2,409,662
Group required capital	316,400	257,537
Required capital cover	6.4	7.4

3. Embedded value earnings

The embedded value earnings are derived as follows:

	31 Dec 2012 P'000	31 Dec 2011 P'000
Embedded value at the end of the year	2,576,543	2,409,662
Embedded value at beginning of the year	2,409,662	2,406,628
Change in embedded value	166,881	3,034
Dividends and new capital	157,400	185,520
Embedded value earnings	324,281	188,554
These earnings can be analysed as follows:		
Expected return on life business in force	80,200	81,376
Value of new business	99,307	115,305
Value at point of sale	90,198	106,046
Expected return to end of year	9,109	9,259
Operating experience variances	7,599	10,438
Mortality/Morbidity	58,696	45,485
Persistency	(23,974)	(13,967)
Expenses	(6,867)	3,464
Other	(20,256)	(24,544)
Operating assumption changes	18,140	(37,735)
Mortality/morbidity	6,679	(27,502)
Persistency	45,791	(26,719)
Expenses	(14,011)	1,256
Other	(20,319)	15,230
Embedded value earnings from operations	205,246	169,384
Investment variances	17,761	(5,953)
Economic assumption changes	10,517	-
Interest and Inflation	10,517	-
Risk discount rate	-	-
Growth from life business	233,524	163,431

- Return on embedded value of 13%
- Required capital of 6.4 times
- Embedded value per share of P9.61

Embedded Value

P2,6 billion

(increases by 7%)

EMBEDDED VALUE REPORT
CONTINUED

	31 Dec 2012 P'000	31 Dec 2011 P'000
Return on shareholders assets	224,388	319,188
Investment Returns	57,687	154,147
Net profit non-life operations	166,701	165,041
Change in shareholders' fund adjustments	(133,631)	(294,065)
Investment (losses)/surpluses on treasury shares	-	-
Movement in present value of holding company expenses	1,390	(14,282)
Movement in fair value of incentive scheme shares	(8,895)	(26,092)
Movement in other net worth adjustments	(126,126)	(253,691)
Embedded value earnings	324,281	188,554
Fair value adjustments		
Staff share scheme	(14,913)	(16,302)
Non-life operations write-up to fair value	62,218	336,360
Group holding expenses	(63,027)	(54,132)
Other group operations write-up to fair value	62,218	(81,561)
Reversal of cross holding adjustment	100,605	96,368
Total	147,101	280,733
Consisting of		
Net asset value adjustments	210,128	334,865
Value of in-force business adjustments	(63,027)	(54,132)

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 2012, accumulated to the end of the year at the risk discount rate. The value is adjusted for the cost of capital required to support the new business.

	31 Dec 2012 P'000	31 Dec 2011 P'000
Value of new business at end of the year	99,307	115,306
Value at point of sale after cost of capital	90,198	106,047
Value at point of sale before cost of capital	107,752	120,487
Recurring premium	31,782	59,105
Single premium	75,970	61,382
Cost of capital at point of sale	(17,554)	(14,440)
Expected return to end of year	9,109	9,259

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	**11.5% P'000**	**12.5% P'000**	**13.5% P'000**
Shareholder's net assets and fair value adjustments, excluding goodwill	2,040,002	2,040,002	2,040,002
Value of in-force business	577,733	536,541	495,290
Value before cost of capital	738,618	708,461	677,090
Fair value adjustments	(63,027)	(63,027)	(63,027)
Cost of capital	(97,857)	(108,893)	(118,773)
Embedded value	2,617,735	2,576,543	2,535,292
Value of one year's new business at valuation date	98,204	90,198	83,339
Value before cost of capital	114,252	107,752	102,314
Cost of capital	(16,048)	(17,554)	(18,976)

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-12 % p.a	**31-Dec-11 % p.a**	**31-Dec-10 % p.a**	**31-Dec-09 % p.a**
Risk discount rate	12.50	13.00	13.00	13.50
Overall investment return (before taxation)	10.09	10.59	10.59	11.09
Expense inflation rate	6.00	6.50	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 30 November 2011 by the company.

EMBEDDED VALUE REPORT
CONTINUED

6.3 Expenses
A 6.0% expense escalation per annum was assumed going forward. (2011:6.5%)

6.4 Premium Escalations
The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business includes the expected value of premium indexation arrangements on new business written during the period to 31 December 2012.

6.5 Persistency / Surrender Basis
The assumptions for lapse and surrender rates are based on the results of experience investigations conducted on 31 October 2012 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-12	31-Dec-11	31-Dec-10	31-Dec-09
Equities	15.0%	15.0%	15.0%	15.0%
Hedged equities	0.0%	0.0%	0.0%	0.0%
Property	10.0%	10.0%	10.0%	10.0%
Fixed-interest securities	25.0%	25.0%	25.0%	25.0%
Cash	50.0%	50.0%	50.0%	50.0%
Total	100.0%	100.0%	100.0%	100.0%

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

7. Sensitivities
This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the Financial Soundness Valuation has been included in the value of in-force business. For each sensitivity illustrated all other assumptions have been left unchanged.

	Value of in force P'000	Cost of capital over base P'000	Value before cost of capital Total P'000	% Change
Embedded value at 31 December 2012				
Base	536,541	108,893	645,434	
Discontinuance rates decrease by 10%	562,624	108,893	671,517	4.0%
Future expenses decrease by 10%	542,964	108,893	651,857	1.0%
Mortality experience decreases by 5%	558,762	108,893	667,655	3.4%
Investment returns decrease by 1%	560,601	111,031	671,632	4.1%
Risk discount rate decreases by 1%	577,733	97,857	675,591	4.7%
Risk discount rate increases by 1%	495,290	118,773	614,063	(4.9%)

	Value of new business	Cost of capital	Value before cost of capital	% change
Value of one year's new business as at 31 December 2012				
Base	90,198	17,554	107,752	
Discontinuance rates decrease by 10%	95,162	17,554	112,716	4.6%
Future expenses decrease by 10%	93,497	17,554	111,050	3.1%
Maintenance and acquisition costs decrease by 10%	97,180	17,554	114,733	6.5%
Mortality experience decreases by 5%	89,417	17,554	106,971	(0.7%)
Investment returns decrease by 1%	91,461	18,174	109,635	1.7%
Risk discount rate decreases by 1%	98,204	16,048	114,252	6.0%
Risk discount rate increases by 1%	83,339	18,976	102,314	(5.0%)

Assumed management action

No management action has been assumed.

GT Waugh
Statutory Actuary
FIA FASSA

Review of operations 50

“It is very important that we maintain our leadership position while maintaining relevance to our clients”

Gaffar Hassam, BIHL Chief Executive

2012 was a challenging year but in many respects an exceptional year for BIHL. We succeeded in delivering a solid financial performance, retained the bulk of our client base, bedded down the minor technological glitches we encountered in the year and overall came out of 2012 a stronger BIHL.

BOTSWANA LIFE INSURANCE LIMITED
AT A GLANCE

PERFORMANCE HIGHLIGHTS

- Significantly improved lapse experience
- Three new products launched
- SMS alert service introduced
- Bedded down new IT system

Catherine Lesetedi-Letegele
Botswana Life, Chief Executive Officer

We managed to maintain our operating profit at P239.5 million – a commendable achievement given the enormous pressure resulting from the difficult economic conditions.

Botswana Life takes pride in being able to constantly evolve to meet client needs today and into the future. Our significant investment into technology and training of human capital clearly demonstrates our desire to take a long-term perspective on our sector. We will not be reactive to market forces but we will continue to plan and proactively take on competition. The performance of our different lines of business was very different in the review period. This is most apparent when looking at the Value of New Business (VNB) indicator. While all our lines of business, with the exception of our Individual Life/Retail line, performed well, this impacted negatively on the VNB achievement. However, there was a marked sales improvement in the Individual Life segment in the latter part of the year and that momentum appears to be continuing into 2013.

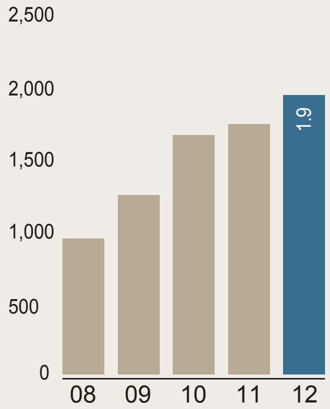
Further good news comes in the form of our lapse management programme, known as Project Alpha and initiated in 2011, which started to produce positive results in 2012 and made a handsome contribution to the operating profit result. We expect this improved lapse experience to continue through 2013.

In addition, even with the state of the economy, some opportunities exist. We will be exploring them with greater vigour in 2013 and into the future.

Our Credit Life line of business did well across all the key performance indicators.Our bancassurance activities are taking a little longer to reach their full potential, but we are optimistic that they will start to bear fruit in 2013.

Corporate Business lines, Group Life and Funeral lines operate in an exceptionally competitive environment, where mandates are lost or won on the basis of price and not the core principles of service turnaround times and financial strength as is normally the case when purchasing insurance cover. We have taken a strategic decision to put quality of premium income and profitability ahead of market share. So while premium income in 2012 is slightly down on the previous year, the profitability of these lines of business has improved significantly over the period.

Premium income
(Pula billion)



Our core business

Botswana Life Insurance Limited is the leading life insurance company in Botswana and is a 100% subsidiary of Botswana Insurance Holdings Limited. It offers complete life insurance policies for all sectors of the market covering death, sickness and accidents. The packages are tailor-made for corporates and individuals. In addition Botswana Life Insurance Limited also provides funeral schemes to suit all income groups. Long-term savings plans and retirement annuities are another offering from Botswana Life Insurance Limited, allowing Batswana greater flexibility in planning for their retirement.

Botswana Life Supports Breast Cancer Awareness

In July 2012, Botswana Life joined forces with the Journey of Hope (JOH) Botswana during their annual breast cancer awareness campaign, to encourage more women to test for breast cancer and get medical assistance. Botswana Life's contribution to the campaign was a donation of medical gazebos that were used as testing facilities during the nationwide roadshow. The number of individuals who tested during the 2012 roadshow doubled from the 2011 figure.

Life Insurance Contribution

- Contribution to earnings in 2012 is 62%
- Operating profit of P239.5 million in 2012.

Operating profit

P239.5

million

Operations

Botswana Life is in the process of initiating a re-engineering project that will enable us to significantly reduce costs as we take full advantage of the new operating platform that was implemented and bedded down in the review period. This allows us to automate many processes and eliminate long standing inefficiencies and bottlenecks. It also gives us unprecedented flexibility which, for example, has enabled us to reduce our new product time-to-market process from months to just days. We will be integrating many of our disparate systems, which will result in a far more efficient and consistent experience for our customers, regardless of how or where they choose to interact with us. I am particularly pleased with the activation of our SMS platform which is making communication with our customers more immediate and efficient. Their feedback has been overwhelmingly positive.

Three-year Sekgantshwane strategy

We are now in the second year of our three-year Sekgantshware strategy. In the current year, the focus is on achieving new growth. Much of this will come from some of the new products that we launched last year. One that is doing particularly well is a life cover product that doesn't require the client to undergo an HIV test for policies valued at less than P500,000.

Looking ahead

Our strategy into 2014, which is extremely challenging, is being supported by a change management programme. This is helping us to communicate and engage with the staff so that everyone is able to buy into and be comfortable with our invigorated customer-centric approach. Botswana Life has been around for many years and as we move forward it is very important to maintain our leadership position while maintaining relevance to our clients. We have looked at ourselves, seen the gaps and inefficiencies, and have taken client feedback very seriously. We understand our obligations to our stakeholders as well as our country. We are doing what needs to be done to make us even more focused and responsive to change in the future.

In closing, I would like to extend my sincere thanks to everyone - Staff members, Management, and the Board- who have rallied behind the strategy and the projects. I also thank our clients, brokers and agents who have remained steadfastly loyal while we were going through the upheaval of implementing our new system. Thank you all for your loyalty and your support.

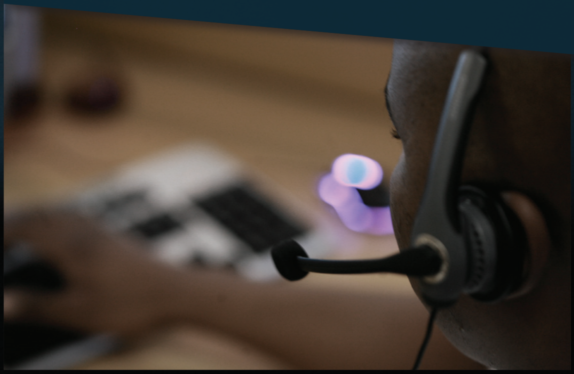
Catherine Lesetedi-Letegele
Botswana Life, Chief Executive Officer

BLIL product

2. Our Information Technology revolution

- P22 993 177 spent by Group on Information Technology upgrades
- Botswana Life totally revamped its back office and data capture with the Thito System - P8 530 000 invested
- Bifm through a smart partnership with Sanlam now has world best practice IT capabilities through the Curo System - P1 070 000 invested
- BIHL SURE! has been built off a industry leading IT platform in partnership with Eskadinia – P6 790 000 invested

Adapting to the everchanging client needs and requirements



The mastery of Data is without doubt one of BIHL's keys to a sustainable future. By data here we refer to client information, market information, economic indicators and market intelligence.

Having data, however is not the ultimate challenge. It is the ability to accurately interpret the data that is priority. As the BIHL group is nearly four decades old we have literally millions of bits of information across all our subsidiaries. Over the years various attempts had been made to optimise our access and ability to interpret the data we have. Over the last two years a concerted effort has been made across the Group to modernise. And thus the investment of over P22 million was spent last year alone on IT system upgrades.

As a Group, each intervention has been treated as a stand-alone project by our respective subsidiaries. However the common objective for the Group has been to enable each subsidiary the ability to react to client needs quicker and better and the ability to develop better fitting products for clients quicker. Products that are able to adapt to ever changing client needs and requirements.

Each IT system upgrade required huge efforts from the teams within the business to ensure that current clients did not get negatively affected. As a Group we are pleased to report that all the 'bedding down issues' that tend to occur with this type of intervention were to a large extent were minor and only occurred during installation. All issues were very quickly addressed by the relevant Project teams to conclusion and satisfaction of all our clients.

We would like to thank our Clients, Staff and Suppliers for their support and understanding. We now have a world-class systems in place that works and will bring even greater value and service to our clients and shareholders.

The Information Frontier has arrived and BIHL Group is ready for the challenges and will identify new opportunities within Botswana, all aimed at securing the long-term future of BIHL.

Bifm
AT A GLANCE

PERFORMANCE HIGHLIGHTS

- Assets under management up 21%
- Revised offshore strategy
- Airport Junction Mall opened
- New back office system embedded

Tiny Kgatlwane
Bifm Chief Executive Officer

Bifm's financial performance in 2012 – a turbulent year for the Group - was satisfactory. We not only had to deal with the lingering effects of the global recession, but also felt the full impact of the loss of a large part of our Zambian investment while dealing with the upheavals of our internal restructuring.

The full impact of the loss of our Zambian operation has now been accounted for. Other factors which also depressed our results – the fact that we started the year with lower Assets Under Management (AUM), the sale of our 51% stake in Bifm Capital and higher and new costs in 2012.

Now, with our revised offshore strategy taking shape, our cost containment programme kicking in, and our new back office system bedded down and enabling us to improve customer service and turnaround times significantly, Bifm is poised for delivery in 2013. We are building on the momentum that started in the latter part of the review period.

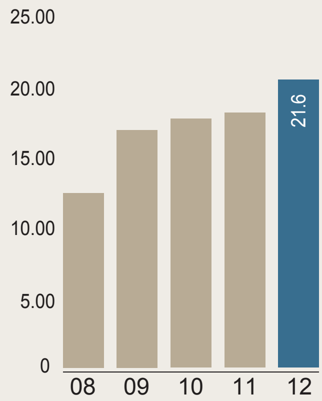
In the year under review, new mandates were secured and the latter part of the year saw a significant recovery in the offshore market performance, enabling us to recover from the P1.2 billion loss of assets under management in 2011, resulting in a 21% growth in AUM.

I am confident that in 2013, all this, combined with the further roll out of our alternative investment strategy, will compensate for the loss of the Zambian operation and deliver sustainable growth.

We will be launching our collective investment units, commonly known as Unit Trusts, in the first quarter of 2013 and will also launch our private equity fund. In addition, we are also reviewing our property investment portfolio and anticipate being able to announce a major investment towards the end of 2013.

We continue to look for innovative and profitable investments for our clients' money as far as possible within Botswana. Some of this, we believe, could be used to assist Government, reducing the need for it to go offshore for financing. We estimate that there is some P3 billion in excess liquidity in the local market that could be made available to Government.

Assets under management
(Pula billion)



Our core business

Botswana Insurance Fund Management is wholly owned by Botswana Insurance Holdings Limited and was established in 1975 as Botswana's first asset management company. Bifm currently manages over 21.6 billion in assets from fixed income, equity, real estate and alternative investments. Their portfolio covers non-traditional assets such as the healthcare industry and tourism sector. Bifm has also managed to expand regionally to Zambia and has a 49% stake in a Aflife Zambia which deals with asset management and employee benefits in that market.

Bifm
CONTINUED

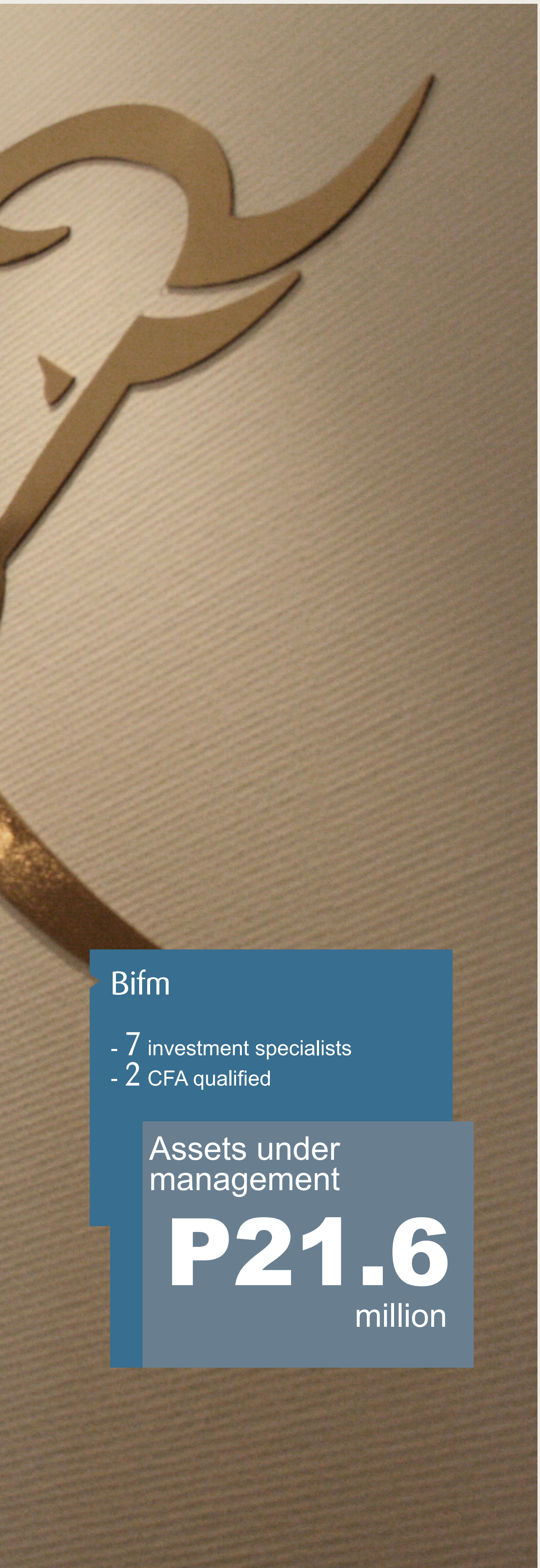
Bifm Capital sale

An important, albeit financially insignificant event in the review period, was the conclusion of the Bifm Capital transaction.

The Group took the decision to sell its share in Bifm Capital to its minority shareholder, Capital Management Africa (Proprietary) Limited (CMA), as it had become clear that the company's operations were not aligned to the Group's strategic thinking. The total consideration payable in terms of the whole transactions amounted to less than 1% of BIHL's consolidated net financial position as at the end of the 2011 financial year.

In the two-part transaction, Bifm Capital initially transferred 100% of the issued shares of Bifm Capital Investment Fund One (BCIF1) to Botswana Life. This has enabled Botswana Life to bring the assets held by BCIF1 directly into the Botswana Life Annuity Fund, enabling it to better match its liability profile.

Thereafter, the sale by Bifm of its 51% shareholding in Bifm Capital to CMA proceeded.



New Bifm website

With the expansion in product offering of not just servicing Institutional clients to moving into the retail sphere, Bifm thought it best to revamp the website and ensure that it caters to all its clients. This new website illustrates that Bifm is still a pioneer in asset management in Botswana. The website is dynamic and global. This website will allow the clients who are invested in Unit Trusts to go onto the website and actually look at their investment portfolio. It will allow the client to track their performance at any given time and know how the different funds are performing. For more go to **www.bifm.co.bw**

Regulatory environment

The institution of the new regulatory environment is posing significant challenges for both Bifm and the entire asset management industry in Botswana.

There is no doubt that regulation is necessary. Together with our industry counterparts, we are actively engaging the regulator in coming to fees that are fair for both parties.

Subsidiaries and Associate Companies

- Quantum: The property management company has been negatively affected by a change in the Zambian regulatory requirement that rental income be collected in the local currency rather than in Dollars. The ongoing devaluation of the Kwacha translates into lower income of Quantum despite the fact that there is good demand for commercial property in Lusaka.

- KYS continued to be challenged by lower occupancies at Gaborone Sun and increased competition. Although this was anticipated, it will remain an issue.

- Khumo produced an unexpected profit in the review period. This is likely to be repeated in 2013 now that Airport Junction and Rail Park Mall are fully on stream.

Thanks

There are many people to thank for their loyalty and support during what was a difficult year all around: our clients, who showed exceptional patience; our service providers and fund administrators; the entire Bifm team who showed resilience and enormous commitment; and our new Bifm Board and Group Chairperson for their guidance and support.

At the end of 2011, I acknowledged that 2012 would be a very tough year in which there would be a clear separation of those that can and do - and the rest. We are now well in to 2013 and my confidence remains intact.

Tiny Kgatlwane
Bifm Chief Executive Officer

3. Bifm Unit Trusts

What are unit trusts?

Unit trusts are vehicles in which investors have the opportunity to pool their money together with other investors who have similar objectives. This pool of money is managed by experienced investment managers in different assets in financial markets, such as a wide range of local and international equities, bonds, property and money market instruments.

The various assets purchased are combined into a portfolio; the value of this portfolio at any given time is split into equal portions or units. When you invest in a unit trust you buy a certain amount of units. The price you pay is essentially the market value, daily, of what that unit trust is invested in.

There are a number of ways a unit trust can help you increase the value of your money. Unit trusts can give you income or capital growth, or even both. As an investor, it is important that you understand risk and return and the importance of risk profiling. The decision you take will depend on your specific circumstances: the stage of your life you're in, your investment objective, your risk appetite and so on.

Pooling:

- Being part of a pool of investors increases your buying power to obtain blue chip shares or other unit trust funds that would have been difficult or almost impossible for an individual to purchase.

Growth:

- Diversification within unit trusts allows the risk to be spread across a range of assets which will provide better protection than placing it all in one area of the financial market.
- Unit trusts are managed by teams of professional economic and market analysts within the asset management company to ensure maximum capital and income growth.
- Consistent long term growth – it has been proven that the longer you leave your money in most unit trusts, the greater the opportunity for growth.

Save today to spend tomorrow

FUND SUITABLE FOR CLIENTS

Money Market Fund

- With a low risk appetite
- Who is looking to earn a monthly income
- Who wants to preserve their capital

Balanced Prudential Fund

- With a moderate risk appetite
- Who is looking for a diversified investment
- Who is looking to invest for 2-5 years

Local Equity Fund

- With a high risk appetite
- Who want to invest in a portfolio of shares listed only on the Botswana Stock Exchange
- Who is willing to invest for the long term

Offshore Balanced Fund

- Who has a high risk appetite
- Who wants exposure to a balanced portfolio of offshore assets
- Who can invest for the long term

Offshore Equity Fund

- Who has a very high risk appetite
- Who wants to invest in offshore equities only

BIHL SURE!
AT A GLANCE

PERFORMANCE HIGHLIGHTS

- Launch of BIHL SURE!
- Small profit already achieved in first six months of operation (we rejoice in the speed of producing the profit not in the size)
- Gratifying uptake of retail offering
- Meeting service delivery targets
- Outstanding performance by Legal Guard

John Haenen
BIHL SURE! Chief Executive Officer

While the highlight of the year (2012) was undoubtedly our official launch in April, we immediately faced several unanticipated challenges. Changes in the reinsurance environment reduced our ability to access large blocks of business.

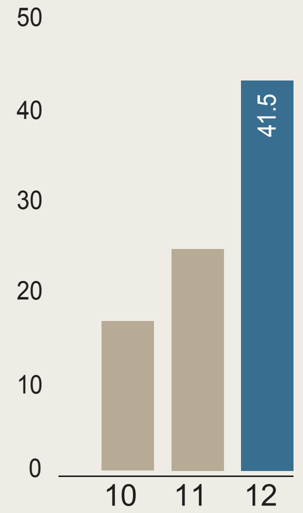
At the same time, the highly competitive commercial insurance sector launched a debilitating scramble for increased market share by slashing prices. We chose not to enter the fray because we do not believe such tactics are sustainable and would result in significant and long-term underwriting losses.

Our focus was moved to our personal insurance offering, and we came into the market with a comprehensive product set, good pricing and excellent service. The market appears to be delighted, enabling us to outperform our projections in this segment.

In terms of service we are far ahead of the market: the average time taken for us to process a claim from registration to effective settlement is one and a half days, with our record being forty minutes. We are able to achieve this speed because our systems and administrative processes are paperless and almost fully automated. This technology advantage also contributes to our average claims cost being significantly lower than is standard in the market.

Nevertheless, whilst the claims process is streamlined and hassle-free for clients, we have built in risk control measures to effectively manage the incidence of claims fraud, which is an ever-present concern to the industry. We will be making it even easier for clients and brokers to interact with us in future with the roll out of our internet and mobile app strategy. We anticipate being able to go live with this in the next financial year. A major challenge we will continue to face is the need to deal with the effects of the commercial insurance price war without being drawn in to what I believe will be a self-destructive, downward spiral. We will do that by introducing innovative new products and offering unparalleled levels of service that are hard to resist. Our choice of technologies was made specifically to enable us to employ this strategy. We have already made some small but meaningful inroads into the highly contested commercial insurance sector where, despite the tough economic conditions, some businesses still value good service ahead of price. We intend to capitalise on our willingness and ability to provide brokers and clients with better risk solutions at an appropriate price, and support this with excellent claims service.

(Pula million)



Our core business

BIHL Sure! is wholly owned by Botswana Insurance Holdings Limited and is the group's answer to the short-term insurance market. The company focuses on short-term insurance products for personal and commercial line customers being HomeSure! and BusinessSure!, respectively. Their innovation is driven by the support from innovative information technology and the infrastructure from their strong parent company. BIHL Sure! is always looking for new and pioneering ways to transform the short-term insurance market.

BIHL SURE!
CONTINUED

Among the main challenges on our path to launch was recruiting and/or training sufficient, appropriately skilled people. We were fortunate to have many good people in the existing Legal Guard structure who have done an excellent job in maintaining and growing that side of the business while we focused on setting up our new general insurance operation.

General insurance, however, is a very different and highly specialised industry with an extremely complex and extensive product set. There is a dearth of experience and skills globally, and this is particularly acute in Botswana. We are fortunate that we have been able to recruit some excellent people who understand the industry well, and who were prepared to put in extremely long hours of very hard work to create the products we needed to get the business ready for launch.

Going forward, we will devote considerable attention to attracting the right skills from outside the organisation and will continue to develop existing staff so that we can create a pool of home-grown, highly skilled resources.

As with any new venture it took some time for the general business operation to gain traction, but it is pleasing to report that by year-end we were meeting most of our very assertive premium targets. It is my firm conviction that this was primarily driven by our commitment to providing superb policy and claims service in an industry that is not noted for its user-friendliness.

Legal Guard once again demonstrated why it is Botswana's leading legal expenses insurance brand. We provided some 20 000 claimants with legal assistance during the year, and we have earned an enviable reputation for swift and certain service. The result has been that in a difficult consumer market the increase in our product revenues was more than three times the industry average.

The overall result for BIHL Sure! was a loss, which was anticipated due to the significant general business set-up costs and our strategic investment in leading-edge technology. To a large extent these costs were off-set by a superb performance by Legal Guard.

It is significant to note that our shareholder agreed to provide the business with additional capital during the year, in anticipation of the need to bolster our solvency margin to cater for far higher business volumes in 2013.

BIHL Sure! offering

Personal Insurance

So much has changed but our HomeSure! product strives to take you back to that kind of security. You can insure your home, home contents, portable items, personal accident and even your home business such as your Bed and Breakfast.

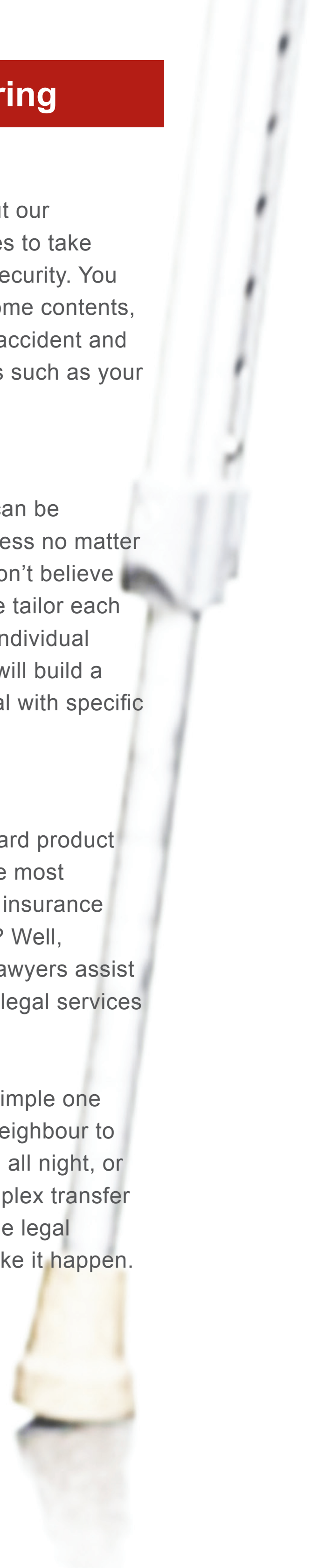
Business Sure!

Is a versatile policy that can be adapted to suit any business no matter how large or small. We don't believe that one size fits all so we tailor each policy to fit the needs of individual clients. If necessary we will build a policy from scratch to deal with specific requirements.

Legal Guard

In the past, our Legal Guard product has proved itself to be the most desirable legal expenses insurance policy in Botswana. Why? Well, because every year our lawyers assist 10 000 people who need legal services of one sort or another.

Whether the matter is a simple one of getting the next door neighbour to stop his dog from barking all night, or whether it involves a complex transfer of property, we provide the legal expertise and clout to make it happen.



Benefits of Insurance

Our products are designed to provide our clients with peace of mind. At face value they may seem just like any 'insurance products' but in actual fact they are well-designed to ensure that life is led to the fullest knowing well that forces beyond our control are to some extent catered for. Beyond the products is a service to ensure that you understand what you are buying and why. Here is a thought process we followed in developing Sure! products.

HUMAN RESOURCES REPORT

CELEBRATING RESILIENCE

People are central to the success of the new BIHL. In 2012 our people showed commitment, dedication and unwavering belief in the Group through the many changes necessitated by the implementation of our strategy.

We reviewed our processes so as to optimise and refine our structure and ensure that the right talent is put in the right roles to unleash their potential. New ways of working were forged in order to align our efforts to the new culture we have been introducing across the Group. Where talent from outside was required, we sought the best in the field to complement our existing team and contribute to our new direction.

Talent retention initiatives

Retention is always a challenge for any business. In order to address this, we identified our key talent and key roles that could be at greatest risk. Then we revised our retention schemes and reviewed our key talent's remunerations packages. We are committed to reviewing this annually so as to ensure alignment to strategic direction.

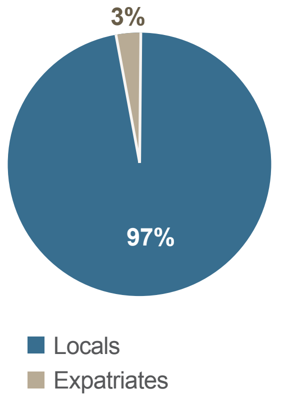
Head count

- BIHL 37
- Botswana Life 240
- Bifm 39
- BIHL Sure! 58

number of employees we have in the Group

over **300**

BIHL



Leadership & management development initiatives

In addition to retention, succession remains a challenge. We introduced an innovative programme to focus on the development of Executive teams across the Group. This focused on personal effectiveness and business leadership.

More than 20 managers went through the “Investors in Excellence” programme to help them become effective in their roles and to be able to better support the executives. Our branch managers completed the LIMRA’s Management Seminar focusing on increasing their effectiveness as business managers in their respective branches. Through our staff assistance programme that supports professional development, many of our people enrolled in personal development programmes. These ranged from Masters programmes at a host of credible institutions across the globe to professional qualifications in their respective fields of expertise.

In addition, our Learning and Development Executives successfully completed the requirements for accreditation in the prestigious Development Dimension International (DDI) learning programme. This will enable the Group to benefit through the use of customised benchmarked training programmes.

Finally, three of our people completed their dissertations for the Senior Management Development Programme (SMDP), Business Development Management programme (BDMP) & Graduate Leadership Development programme (GLDP) through the Sanlam Academy. We will continue to utilise this platform to complement our development efforts.

Localisation & succession management

Business continuity remains top of mind in all our human capital processes. We have a comprehensive localisation and succession management strategy in place and have identified candidates who will be groomed to take up these roles should vacancies occur.

Employee wellness programme initiatives

With our people an essential pillar of our success, it is essential that we do all we can to promote their health and wellness. We have therefore signed a contract with a partner to support us in driving a two-year Wellness programme across our businesses.

The programme is aimed at encouraging healthier lifestyles and to achieve the all important work-life balance. Our staff already enjoy reduced prices at various Health and Fitness centres across the country. Various other initiatives will be launched in 2013 through to 2014.

HUMAN RESOURCES REPORT
CONTINUED

BIHL People

The BIHL family is made up of some exceptional people from all walks of life. Not only do they contribute daily to the continued strength of the BIHL Group of brands but some how also find the time to make their mark outside of the office. From representing Botswana in various sports codes, to charity work, from personal development to improved personal health.

You can very easily recognise a BIHL employee by their quiet determination to always excel. On these pages we share a few of the stories of our People.

Gaffar Hassam, BIHL Group Chief Executive

Gaffar started cycling about a year ago. He has since ridden the Kalahari Challenge, the 94.7 in JHB and participated in various other local rides.

Gaffar has a strong belief that a fit mind is one that has a sound work-life balance. To this end he spends a significant amount of his time on the saddle with colleagues and associates. "I have gained more than health from this sport' says Gaffar 'There is no better illustration of how one can tackle life challenges than competitive cycling. When I started I doubted I could do the big rides. The challenge seemed so big. However just when I thought I could not do better, a little coaching and a few changes to my approach and the abilities continue to grow. This is very much like a business and its approach to change. At the start change and challenges can look so daunting but with an open mind to change underpinned by commitment things can be done."

Setshwano Ngope, Head of Retail at Bifm Unit Trusts

Setshwano has always considered herself to be an avid biker. It's a passion that was born out of both curiosity and circumstance. While she was at university, the credit crunch took its toll and getting a bike proved to be the most effective and pocket-friendly means of getting to and from classes.

She loves the biking lifestyle and the entire biking culture. In fact, it may surprise some to discover that biking is actually synonymous with charity work, and that is a great part of why she loves it. Setshwano is a member of the Botswana Bikers Society, which takes part in a number of charity projects throughout the year.

There is an annual Charity Ride, where the Bikers Society collects toys and donations from sponsors and give them out to underprivileged children, particularly in the paediatric wards of local hospitals. In addition, every winter, they have a Blanket Run, where they collect and donate blankets and warm clothing to the needy.

Johannes Ralegoreng, BIHL Sure! Systems Administrator

Johannes Ralegoreng is easily the most outstanding player in the Mafolofolo men's volleyball club line-up. He possesses mesmerizing skills that always prove too much for the opposition.

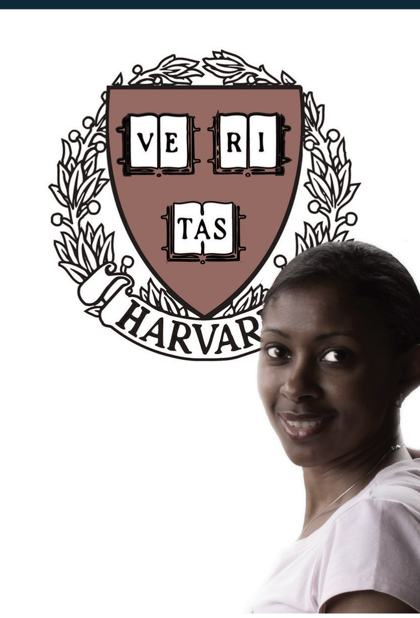
Joe played for the national Under 20, Botswana Senior National team and has won the gold medal with both Senior and Junior teams and countless medal with Mafolofolo and other individual awards which includes best defender.

Ralegoreng aka Joh is a master of spiking and receiving which has always seen him as a cut above the rest..

Boikanyo Mogami, Bifm Chief Investment Officer

Boikanyo has been a marathon runner for two years now. His love for marathons started in 2011 when he was challenged by friends to participate in the Gabz marathon. He has participated in the Phikwe Marathon, the Soweto Marathon and the Two Oceans Marathon. He has won medals upon completing these races but emphasizes that he does this as a hobby and not to win anything.

Masa Binns, BIHL Strategy Manager



Masa attended a Harvard Continuation Program focused in Strategic Management. The program was conducted at the Harvard Business School Campus in Cambridge, Boston Massachusetts, USA in August 2012. This followed her 2010 completion of her MBA and Stellenbosch MDP.

“Our BIHL Business Continuity Policy sets out oversight mechanisms and ensures the BIHL Group is able to recover as swiftly as possible from a significant unforeseen event.”

In 2012, the BIHL Trust’s focus was on education. During this time we launched the BIHL Thomas Tlou Scholarship. This initiative gives Batswana citizens in possession of a first degree an opportunity to further their education, thus deepening the country’s skills base. The comprehensive scholarship recognises the late Professor Thomas Tlou, a proud Motswana who was a respected academic and historian, as well as Botswana’s first representative to the United Nations. The first two students to benefit from this fund are pursuing Masters degrees at the University of Botswana and the University of Witwatersrand in Johannesburg, South Africa.

SUSTAINABILITY REPORT 2012

Building Sustainable Communities

Bana Ba Metsi school in Shakawe received P350 000 from BIHL Trust

Botswana Insurance Holdings Limited (BIHL) reinforced its commitment to corporate governance during 2012, with the adoption and implementation of key policies aimed at guaranteeing the Group's sustainability and safeguarding it against business risks. These policies will further ensure that we use resources efficiently while remaining accountable to all our stakeholders to this end, Botswana Insurance Fund Management (Bifm) has adopted a Combined Assurance Model (CAM) which complies with principle 3.5 of the King III Code on Corporate Governance. Botswana Life Insurance Limited reviewed its CAM, which was introduced the previous year, and BIHL Sure! CAM is scheduled to adopt the model in the 2013 financial period.

SUSTAINABILITY
CONTINUED

The BIHL Group Risk Assurance Framework, approved by the Board during the period under review, includes our risk management policy and plan, risk framework, and the maturity model and risk escalation policy. In addition, it defines several risks facing the business and ensures that risks are identified, assessed, mitigated, monitored and communicated effectively.

The BIHL Group Compliance Policy and Charter governs the conduct of employees, promoting accountability and regulatory compliance.

We participate in international efforts to combat money laundering and the funding of terrorist and criminal activities. For this reason, we have adopted the BIHL Group Anti-Money Laundering and the Countering of the Financing of Terrorism (AML and CFT) Policy.

We are committed to combating all unlawful conduct, but due to the nature of our business, we are also specifically opposed to financial crime within the Group. The BIHL Group Financial Crime Combating Policy recognises our zero-tolerance approach and contains a schedule of offences.

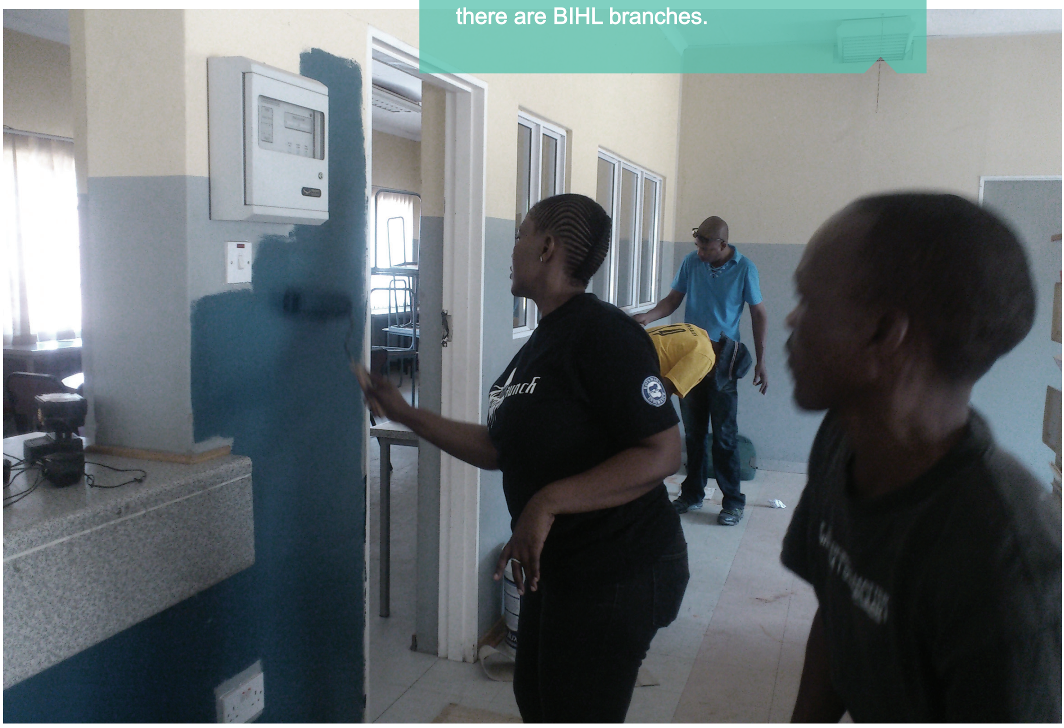
A key concern and area of focus for the Group in 2012 was mitigating against insider trading, which is a major issue for listed companies the world over.

In response, BHIL has adopted, among other policies, the PA Trading Policy. During the period under review, efforts were channelled towards ensuring improved Group-wide understanding of this business risk and the policies we have in place to combat the practice.

Our anonymous anti-corruption tip-off line complements our efforts to fight and prevention all forms of corruption throughout our businesses. This allows our stakeholders, including employees and service providers, to report any suspected criminal activities and bring issues of concern to management's urgent attention. The line is monitored by an independent service provider based in South Africa.
The company was set up by auditing firm Deloitte and is used by a number of leading listed entities. Our BIHL Business

Staff participation

BIHL believes that education is the key to success, so when the Adopt A School Initiative became a project under the BIHL Trust it was apparent how excited the BIHL Group Staff became.
Adopt A School Initiative is a project that the BIHL Trust is in partnership with Sebilo Books Services. The BIHL Trust has undertaken to adopt non performing primary schools throughout the country and developing libraries an an aid to enhance learning,encourage the kids to take a keener interest in reading and create a culture of reading from an early age,so that when the kids get to high school they have developed the love of reading.
BIHL Group staff rolled up their sleeves and picked up painting brushses to assist in getting the library for Tswaragano Primary School in Old Nalledi, Gaborone. The BIHL Staff was enthusiastis and wanted to ensure that the library came out perfectly for the kids. BIHL Trust has committed P350,000 to developing libraries in seven villages throughout the country, where there are BIHL branches.



Continuity Policy sets out oversight mechanisms and ensures the BIHL Group is able to recover as swiftly as possible from a significant unforeseen event.

Corporate Social Investment

Good corporate governance must seek to balance both financial and social goals. As a business, we have a responsibility not only to our shareholders, but also to the communities we serve. Since 2007, BIHL has been allocating 1% of the Group's post-tax profits to its social responsibility activities.

The period under review served as a time for reflection for BIHL, as we considered corporate social investment (CSI) projects which would enable us to make a significant and meaningful impact in the communities in which we operate. We are continuously aware of our obligation to make a meaningful contribution to the growth and development of our country, and the improvement of the lives of Batswana.

Previously the BIHL Trust, which houses these initiatives, preferred prospective recipients to submit funding proposals with motivations for our involvement. It has become evident that many deserving organisations and individuals are unable to compile and submit such proposals.

We are thus developing a mechanism that will enable us to operate at a grassroots level in order to identify worthy projects that meet our sustainability criteria. Our goal, ultimately, is to support projects that assist communities and individuals to empower themselves and to become self-supporting.

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SUSTAINABILITY
CONTINUED

We continued to support the Maru-a-Pula School's Orphan and Vulnerable Children Scholarships Fund. This organisation does sterling work in enabling some of the most vulnerable members of society to access opportunities.

We supported the national Adopt-A-School programme for the first time in 2012. We aim to provide primary school pupils with libraries offering quality reading material. By constructing libraries, we hope to nurture a love of learning and enable greater comprehension in secondary school education.

Employee health and development

BIHL recognises the importance of having properly skilled employees who are adequately equipped to carry out their responsibilities and deliver exceptional customer service.

In line with our objective to be the leading financial services company in Botswana and a preferred employer, we have improved our investment in educating our employees and, in particular, developing our leadership pipeline.

We are proud to report that several of our senior managers were part of the University of Stellenbosch's Senior Management Programme. This leadership development programme will bolster our talent pool and skills base, and assists in retaining critical skills.

The health and well-being of our employees continues to be of paramount importance. To this end, we are continuously assessing the impact and effectiveness of our HIV and AIDS programmes. These programmes aim to raise awareness about the disease in order to mitigate its impact.
We are also investing in a comprehensive wellness programme that addresses the needs of our employees in a holistic manner.

2012 marked the first year in which BIHL took part in the Gaborone Steinmetz Marathon. Already, nearly half of our 300 employees across the Group have participated in this annual event, demonstrating the effectiveness and relevance of this investment for staff morale and wellness.

To remain both commercially viable and socially relevant, it is important that we remain conscious of the impact our activities, particularly on the property development side, have on the environment. We are committed to conducting proper due diligence with all our projects in addition to adopting environmentally considerate green initiatives that focus on energy saving.

Gaborone Steinmetz Marathon

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CORPORATE SOCIAL INVESTMENT

CSI report

With a long standing commitment towards bettering the communities and environments in which it operates; 2012 saw an increasingly strong dedication to CSI by the BIHL Group.

The Group's CSI initiatives in 2012 revolved around education and are all aimed at empowering Batswana and giving back to the communities and people who have continuously supported and contributed to the organisation's growth.

BIHL Trust

The BIHL Trust was established in 2007 to identify and support worthwhile initiatives within local communities and to encourage sustainable entrepreneurship initiatives. These have the potential to be self-sufficient and leave a positive impact in their communities. Through a number of projects, the BIHL Trust aims to ultimately build stronger communities for a better tomorrow.

In line with the vision 2016 pillar for Botswana to become a “compassionate, just and caring nation,” the Trust objective is to promote worthy causes such as community projects that alleviate poverty and suffering to deserving beneficiaries.

CORPORATE SOCIAL INVESTMENT
CONTINUED

Education

Education is the key to success. At BIHL, we appreciate these as more than simply a turn of phrase. We are committed towards playing an active role in the development and training of well-educated individuals who will in turn make a substantial contribution to the diversification and socio economic development of Botswana. Our intention is to contribute towards the development of professionals and future leaders who not only become active economic participants in society, but also contribute to the upliftment of others.

Zebras Sponsorship

There is no doubt about the sense of pride that the national football team, the Zebras, elicited when they made history and qualified for the 2012 Africa Cup of Nations in Gabon and Equatorial Guinea. As a patriotic corporate citizen, Botswana Life rallied behind the team and designed a special insurance cover termed the Zebras Income Replacement Cover, which provided cover to all the players during their participation in the tournament. Two (2) of the players who sustained injuries at the tournament and lost income from their regular teams as a result of the injuries were able to claim from Botswana Life. In total, Botswana Life insured the team to a maximum value of P3 million. In addition to the cover, Botswana Life was also one of the corporates that made it possible, through a sponsorship of a quarter of a million Pula, for the government-owned local television station, Btv, to purchase broadcasting rights for the tournament and screen the games to the nation.

Adopt A School Initiative

BIHL Trust, in partnership with Sebilo Book Services, is undertaking a project of adopting non performing primary schools and developing libraries as an aid to enhance learning and to also encourage the kids to take up reading in a fun environment. The Trust has reserved P 350,000.00 for the project and this amount will cover seven schools around the country. The project is done in conjunction with the Ministry of Education through the Education Hub. The project will involve doing a fully functional library that will be inviting to students. In some areas this will mean incurring costs for rehabilitating the rooms used to make them colourful and also put in the required furniture such as tables and chairs. The project will also be used for employee volunteering where staff members will be able to assist in the rehabilitation process or give talks at the schools to motivate learners.

Maru-a-Pula School Orphan and Vulnerable Children's Fund P200, 000 annually since 2011

A decision was taken by the BIHL Trust Board to support the Maru-a-Pula School Orphan and Vulnerable Children's Fund. BIHL Trust is proud to be associated with a fund that allows children who might have not been able to attend a school with such high education standards and results. This donation goes into a fund that allows disadvantaged orphaned children to attend MAP and many who have been given this opportunity have gone on to attend university such as MIT in Boston, Yale University in Connecticut, Stanford University in California. These scholars will be able to come back to Botswana and make a meaningful impact in Botswana.

Bana Ba Metsi School (Shakawe)

This school situated in a remote North-Western corner of Botswana was established to give young dropouts a second chance at education. The school reintroduces these young boys to education and provides life skills training as well. The ultimate aim is to reintegrate the young people into society again. BIHL Trust funded the construction of an indoor kitchen and a classroom to be used for computer studies.

The school's students constructed the buildings themselves as a way to help develop marketable skills. The school was also connected to the national electricity grid, making the school able to power various other functions besides the computer studies room and new kitchen.

4. BIHL Thomas Tlou Scholarship

This is our beloved Botswana, we need to develop it ourselves. -Prof. Thomas Tlou

In line with its aim of playing an active role in the development of Botswana's future, we developed the Thomas Tlou Scholarship. Professor Thomas Tlou greatly contributed to the development of our country both as a noted international historian, scholar and diplomat who represented Botswana at the United Nations. His works, which he either wrote or co-wrote, continue to provide much needed insight to Batswana to this day. The first scholarship is open to students of all persuasions wishing to pursue graduate studies in any discipline intended to contribute to the socio-economic development of Botswana.

"An opportunity to learn"

One of the two scholarships awarded in 2012 was to Samson Bula Setumo who is currently pursuing his Masters in Public Health-Social and Behaviour Change Communications at Wits University in Johannesburg, South Africa. According to Samson, the BIHL Thomas Tlou Scholarship has afforded him the opportunity to realise his dreams and further his studies. This has in effect allowed him the opportunity to effectively put into practise the skills that he is continuously acquiring through his studies. Upon completion of his studies, he hopes to use his degree by furthering research and implementation of strategies and methodologies in the pursuance of social and behavioural change in our country. Setumo attributes the BIHL Thomas Tlou Scholarship to giving him the necessary financial support and therefore allowing him to focus on his studies.

"I am very excited to finally be given the opportunity to learn what I have been practicing for some time now, this will allow me to have a broader view of the theories that will give me a wider scope, so that I can give back to my community on completion of this programme, this would not have been possible without the BIHL Thomas Tlou Scholarship", Setumo said.

Corporate governance report

“BIHL is committed to business integrity and professionalism in all activities”

STATEMENT OF COMMITMENT

Our 2012 Annual Report covers the activities of the BIHL Group. The Board has adopted the integrated approach to managing the Group to actively engage the governing structure, including in particular, the process of identifying, communicating on, and responding to, those material issues that impact on our capacity to create value.

The Board acknowledges its responsibility to ensure the integrity of the Annual Report. It believes that it addresses all material issues and that it fairly represents the integrated performance of the Group. The Board of directors further promotes and supports high standards of corporate governance and in so doing, endorses the principles of the third report on Corporate Governance (King III). King III is a code that establishes global best practices on how to govern companies. In Botswana there is a draft code that is being developed along the principles of King III. BIHL will subscribe to this code once implemented. With regard to the year under review, the directors of BIHL believe that most of the King III principles are already entrenched in the Group's internal controls, policies and procedures governing corporate conduct. All reasonable efforts have been carried out to the extent that King III has largely been implemented since the beginning of the financial year and the Board is committed in continuing to carry out the implementation of King III throughout the Group.

It is important to note that most areas according to King III report have been complied with. Refer to the checklist on page 104.

The Board is committed to the highest standards of business integrity, ethical values and governance. It recognises the responsibility of BIHL to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby ensuring its sustainability and safeguarding the interests of all its stakeholders. The Board also acknowledges the relationship between good 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

CORPORATE GOVERNANCE REPORT

APPLICATION OF AND APPROACH TO KING III

The Board is satisfied that every effort has been made during 2012 to apply aspects of King III as far as appropriate.

The Audit and Risk Committee is satisfied that BIHL continues compliance with the King III principles during 2013 and has taken steps to ensure adherence with the obligations placed on the Group as a consequence thereof. The Company has assessed its compliance levels in respect of King III and is continually identifying areas that require improvement. A number of policies and procedures have been addressed within the main operating companies in the BIHL Group. The Board has embedded the principles and recommendations of King III across the Group.

During the past financial year these included the following:

- The existing BIHL Group Corporate Governance Policy Framework was updated in December 2012 to ensure alignment with the King III recommendations on a subsidiary level. It includes Code of Ethical Conduct as well as the Board Approval Framework;

- The annual evaluation of the independent status of BIHL's directors was again conducted in accordance with the King III standards and criteria;
- BIHL's Risk Appetite Statement has been approved by the Board and will be reviewed annually;
- A Combined Assurance Model for BIHL Group is being developed and the implementation process will commence in 2013.
- The Group IT Governance Framework and Charter as well as the IT Policy Framework have been approved and continue being implemented;
- The development of a comprehensive Stakeholder Engagement Strategy and Communication Policy had been finalized and continue to be implemented.

The Board

The Board is the custodian of corporate governance and it is responsible for ensuring that the business of BIHL is conducted along sound corporate governance principles by approving key policies and ensuring that its obligations to all stakeholders. The Board directs BIHL's resource management, strategic planning, risk assessment and its financial and operational management to ensure that BIHL's obligations to its stakeholders are understood and met.

The Board's governance and structure

BIHL is governed by a Board which may not, in terms of BIHL's constitution, comprise fewer than 3 nor more than 11 members. More than half of its non-executive Directors are independent (in accordance with King III) and the preponderance of independent non-executive Directors is strongly encouraged on the boards of BIHL's major subsidiaries. The roles of the Chairman and Chief Executive Officer remain separated, with Batsho Dambe-Groth and Gaffar Hassam holding these positions respectively. The composition of the Board ensures a balance of authority precluding any one Director from exercising unfettered powers of decision making. The Board is assisted in fulfilling its responsibilities by the following Committees:

- Audit and Risk Committee
- Human Resources Committee
- Investment Committee (ad hoc committee)
- Nominations Committee (ad hoc committee)
- Independent Review Committee (ad hoc committee)

The responsibility for the implementation and monitoring of corporate governance within the BIHL Group rests with the Board, which is assisted by the above mentioned Committees.

During this financial year, the Board was chaired by Ms. Batsho Dambe-Groth, an independent non-executive Director. The Board comprises:

CORPORATE GOVERNANCE REPORT
CONTINUED

- Six independent non-executive Directors;
- Four non-executive Directors; and
- One executive Director.

The Chairperson 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 stakeholder queries or other issues relating to BIHL. Non-executive Directors have the opportunity to meet separately without the BIHL Chief Executive Officer as and when circumstances warrant.

Definition of independence

For the purpose of this report Directors are classified as follows:

- Executive Directors are involved in the day to day management and in the full time employment of BIHL;
- Non-Executive Directors are those Directors that may be a nominee of or represent a shareholder; and
- Independent Non-Executive Directors are those Directors that are neither involved in the day to day management of BIHL, nor are a nominee of or represent a shareholder.

Subsidiary Boards

The BIHL Subsidiaries are Botswana Life Insurance Limited (Life Insurance) , Bifm (Asset Management) as well as BIHL Sure! (General Insurance).
Each subsidiary is managed by a chief executive, supported by an executive team and support functions that are appropriate to their particular operational needs. The subsidiaries function within the strategy approved by the Board and according to a set of 'tight' management principles established by the Group Office for the BIHL Group. Subsidiary boards were established for the subsidiaries. Each of the subsidiary boards has its own Audit and Risk committee.

The subsidiary boards consist of non-executive and executive directors. Non-executive directors include members of the BIHL Board and, where appropriate, external appointments. Board committees are, where appropriate, strengthened through the appointment of independent experts.

The majority of the operating business decisions are made by these boards and Board committees working together with the relevant subsidiary management. These structures are also responsible for the generation of memoranda and issues for consideration by the BIHL Board.

Group Office

The Group Chief Executive Officer is supported by a Group Executive committee as well as by a small centralised Group Office mainly performing the following functions: strategic directing (tight issues); coordinating; synergy seeking; performance monitoring; assurance provision, the allocation of capital and support functions.

Board charter

The Board meets at least 4 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 sub-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:

The Board charter (and the committee charters) embraces the Code of Practices and Corporate Conduct in the King III Report which contains the corporate governance guidelines and recommendations. The current Board charter has been modelled on the principles of sound corporate governance, recommended by King III. The powers of the Board include:

- A determination of the overall objectives for the Group;
- A formulation of a clear and concise policy which is adhered to;
- An overview of the division of the Board's responsibilities and accountability;
- Evaluating performance of the Group Board, its committee structures and individual directors; and
- Developing strategies to meet those objectives in conjunction with management.

Committee charters

The Board committee charters, which describe the terms of reference of the committees as delegated and approved by the Board, are reviewed at least annually.

Appointment and re-election of directors

The Board charter contains a policy detailing the formal and transparent procedures for appointment to the Board. The Nominations committee reviews the composition of the Board on a continuous basis to ensure the appropriate level of skills and experience in key areas such as strategy, industry knowledge, finance, human resources, corporate governance, risk management and sustainability. BIHL's Memorandum of Incorporation empowers the Board to appoint a director until the next AGM if a casual vacancy arises. In terms of the Memorandum of Incorporation, directors are subject to retirement by rotation every three years and, if put forward for re-election, are considered for re-appointment at the AGM. Shareholders may also nominate directors for election at the AGM, in accordance with formal, prescribed procedures. In the Notice of the AGM, shareholders are referred to the biographical details of each of the candidates as contained in the Board of directors section of this Annual Report. All directors are consequently appointed on an individual basis at an AGM by a shareholders' resolution.

During this financial year, review the following appointments and resignations were made:

Appointments

Mr. Robert Dommisse was appointed as a non-executive Director on 20 November 2012.
Mr. Themba Gamedze was appointed as a non-executive Director on 20 November 2012.

Resignations

Ms. M Dawes resigned as a Director on 07 November 2012.
Ms. Dawes resigned after serving for more than 7 years on the Board. She has chaired Audit and Risk Committee as well as the HR Committee.

Mr. F Kellerman resigned as a Director on 16 August 2012. Mr Kellerman was appointed to the BIHL Board in 2005. He resigned after serving more than 5 years. He was a member of the Audit and Risk Committee as well as the Investment Committee.

The Board would like to thank them for their invaluable contribution to the Board.

On appointment, the new Directors, as have all new Directors previously, had:

Discussions with the Chairperson regarding BIHL's expectations of his/her, potential contribution to BIHL and the areas of his/her expertise.

In accordance with BIHL's constitution, the term of office for non-executive Directors is 3 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 (AGM). The non-executive Directors do not hold service contracts with BIHL 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 quarterly to consider business philosophy and strategic issues, to set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Feedback from its Committees, as well as a number of key performance indicators, variance reports and industry trends are considered. In addition to the quarterly Board meetings, a strategy session is held and is attended by all Board members and Group Executive committee members, reviewing Group strategy which is considered and approved annually.

CORPORATE GOVERNANCE REPORT
CONTINUED

A summary of meetings held and attended is indicted below:

	BIHL Board meeting	Audit and Risk Committee	Investment Committee	Human Resources Committee
B Dambe-Groth	4/4	-	-	5/5
C Chauhan	4/4	-	-	5/5
U Corea	3/4	5/6	-	-
J Hinchliffe	4/4	6/6	-	-
M Mpugwa	4/4	-	4/4	-
M Seboni	2/4	-	-	-
T Schultz	4/4	-	4/4	-
H Werth	4/4	-	-	5/5
M Dawes	4/4	6/6	-	5/5
F Kellerman	3/4	4/6	-	-

Board committees

In the course and scope of discharging their mandate, the Directors are empowered to delegate part of their duties. Certain functions of the Board are facilitated through the main Committees, including the Audit and Risk, Investment, Human Resources, Nominations and Independent Review. These committees have formal charters and report to the Board at regular intervals. With the exception of BIHL Exco, Committees are chaired by independent non-executive Directors. Re-appointment to the Committees is not automatic and is subject to the approval of BIHL's Nominations Committee. When BIHL Directors retire by rotation they automatically retire from the Committees on which they serve.

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 Committee
- Committee charter ✓
- All meetings held ✓
- Attendance record 90%

Members: Mr. Robert Dommisse (Chairperson) (appointed on 20 November 2012); Mr Themba Gamedze (appointed on 20 November 2012); Mr. Uttum Corea, Mr. John Hinchliffe; and Mr. Chandra Chauhan as an alternate member to Mr. Uttum Corea.

Composition: 2 non-executive Directors and 2 independent non-executive Directors.

The Audit and Risk Committee met six times during this financial year.

The Committee has a formal written charter which sets out its responsibilities. The Committee meets at least 4 times per annum. The internal and external auditors attend these meetings and have unrestricted access to the Chairperson of the Committee.

The main responsibilities of the Committee are to assist the Board in discharging its responsibilities under the Companies Act, Non-Bank Financial Institutions Regulatory Act and the common law, with regard to the business of BIHL. In particular, it monitors financial controls, accounting systems and reporting, compliance with legal and statutory requirements, evaluation and the management of risk areas and internal control systems, and the effectiveness of external and internal auditors. The Committee also evaluates BIHL's exposure and response to significant risks, including sustainability issues.

In line with King III requirements, the Audit committee has formal terms of reference approved by the Board, and is satisfied it has discharged these responsibilities. The role of the Audit Committee is to fulfil all of the functions set out in the Act, to assist the Board in fulfilling its responsibility with regard to financial and auditing oversight responsibilities, as well as the overall quality and integrity of financial and actuarial reporting and internal control matters. The Audit Committee annually evaluates the Company's internal controls and has satisfied itself that there were no material breakdowns in internal financial control systems during the year. The Audit Committee, after due consideration, recommends the Annual Report to the Board for approval. It also performs the prescribed statutory requirements including those applicable to the external auditor. The last-mentioned includes the annual recommendation of the external auditor to the shareholders at the AGM, agreeing to the scope of the audit and budgeted audit fees in the annual audit plan presentation and approval of the final audit fees. As required by the Act, the committee annually reviews compliance of the external auditor with the non-audit services policy of the Group.

The Committee also reviews and approves the Internal Audit Charter, reviews the effectiveness of the internal audit structures and considers the findings of the internal audit. The Committee also meets with the Group Internal and External Auditors independently of management.

Investment Committee

- Committee charter ✓
- All meetings held ✓
- Attendance record 100%

Members: Mr. Thomas Schultz (Chairperson); Mr. Mahube Mpugwa; and Dr. Keith Jefferis (Independent Consultant)

Composition: 1 independent non-executive Director, 1 non-executive Director and one Independent Consultant.

During this financial year, the Committee met 4 times.

During the November Investment Committee meeting it was decided that the Committee would meet on an ad hoc basis, as a duplication was recognised between the Committee and the BIFM Investment Committee. Going forward the Committee will consider only BIHL strategic investments, and any other issues referred to it by the BIFM Investment Committee.

The Committee has a formal written charter which sets out its responsibilities. The Committee meets at least 4 times per annum.

The main responsibilities of the Committee are to assist the Board in discharging its responsibilities in terms of the evaluation of investments for both BIHL and policyholders, and the mitigation of investment risks, and ensuring that proper governance has been followed in making investment decisions. A sub-Credit Committee meets in tandem with the Bifm Investment Committee to review, set policies for, assess, approve and monitor specific counterparty credit risk as well as to manage the credit risk inherent in the investment portfolios on an on-going basis.

CORPORATE GOVERNANCE REPORT
CONTINUED

Human Resources Committee

- Committee charter — Ad hoc
- All meetings held — ✓
- Attendance record — 100%

Members: Mr. Chandra Chauhan (Chairperson); Ms. Batsho Dambe-Groth; Ms. Margaret Dawes (resigned 7 November); Mr. Robert Dommisse (appointed on 20 November 2012) ; Mr. Heinie Werth.

Composition: 2 independent non-executive Directors and 2 non-executive Directors.

The Committee is responsible for monitoring and advising on Group's human intellectual capital and the transformation processes regarding employees. In particular, the Committee approves executive appointments and reviews succession planning including all the Group Executive committee members, as well as the position of the Group Chief Executive. The Committee is also responsible for the remuneration strategy of the Group, 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 a robust performance management culture is in place. It also makes recommendations to the Board regarding Directors' remuneration. The Chief Executive Officer, the Subsidiary Chief Executive Officers and Head of Group 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

- Committee charter — Ad hoc
- All meetings held — ✓
- Attendance record — 100%

Members: Mr. Uttum Corea (Chairperson); Ms. Batsho Dambe-Groth; Mr. Heinie Werth.

Composition: 2 independent non-executive Directors and 1 non-executive Director.
The Committee is responsible for making recommendations to the Board on all new appointments to the Board and its Committees.
A formal process of reviewing the balance and effectiveness of the Board and its Committees, identifying the skills needed and the individuals to provide such skills in a fair and efficient manner, is required of the Committee to ensure the Board and its Committees remain effective and focused. This includes a regular review of the composition of the Board Committees. It also includes assisting the Chairman with the annual evaluation of Board performance. It is responsible for identifying appropriate Board candidates and evaluating them against the specific disciplines and areas of expertise required. The Board approves all interim appointments, with the final appointments being made by the shareholders at the AGM.

Succession planning is a key focus area within the Group. The Nominations Committee considers the composition of the Board and its Committees on an ongoing basis. The Board is satisfied that the current talent pool available within the Group and the work being done to strengthen it, provides BIHL with a pool of candidates that have the necessary skills and experiences to fill any vacancies that may arrive in the short and long term.

The Committee meets as and when appropriate.

Independent Review Committee

- Committee charter	Ad hoc
- All meetings held	✓
- Attendance record	100%

Members: Mr. John Hinchliffe (Chairperson); Mr. Uttum Corea.

Composition: 2 independent non-executive Directors.

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

Special Board Committees

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

Remuneration philosophy

BIHL's remuneration philosophy and strategy supports the Group strategy in that it governs processes that align predetermined strategic goals with the organisational behaviour required to meet and exceed these goals. In setting up the reward structures, cognisance is taken of prevailing economic conditions, national and international governance principles and the management of risk in the context of both short- and long-term incentive allocations. A great deal of attention was given to correctly position both the nature and the scale of remuneration relative to national comparator groups and international best practice. Steps were also taken to ensure alignment with the regulatory and governance requirements and specifically those of King III.

The responsibility for the BIHL remuneration strategy resides with the Human Resources Committee which also approves mandates for incentive schemes within BIHL 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 Directors. The Board remains convinced that appropriate remuneration for executive Directors is inextricably linked to the development and retention of top-level talent and intellectual capital within BIHL.

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 and capability;
- 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;
- 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 BIHL, in line with the provisions of the prevailing labour legislation and accepted practices.

Executive Directors (+)

The package for executive Directors includes a basic salary, a variable performance-linked payment and an allocation of share options. All of these are established in terms of determined remuneration principles. In line with BIHL's remuneration philosophy, remuneration is reviewed annually by the Human Resources Committee after evaluating each 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 and Committee meetings. BIHL pays for all travelling and accommodation expenses in respect of Board and Committee meetings.

CORPORATE GOVERNANCE REPORT
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Disclosure of individual directors' emoluments is detailed below:

	Annual retainer	Board meeting	Audit and Risk Committee	Investment Committee	Human Resources Committee	Other services	Total Pula
B Dambe-Groth	85,000	75,000	-	-	57,000	45,000	262,000
C Chauhan	65,000	55,000	53,000	-	69,000	6,000	248,000
U Corea	65,000	45,000	10,000	-	-	-	120,000
J Hinchliffe	65,000	55,000	73,000	-	-	60,750	253,750
M Mpugwa	65,000	55,000	-	53,000	-	-	173,000
M Seboni	65,000	35,000	-	-	-	-	100,000
T Schultz**	65,000	55,000	-	62,000	-	-	182,000
H Werth**	65,000	55,000	-	-	57,000	-	177,000
M Dawes**	65,000	55,000	86,000	-	57,000	-	263,000
F Kellerman**	65,000	37,500	46,500	-	-	-	149,000

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

Executive directors' remuneration is disclosed below

(i) Short-term emoluments

Name	Month of service	Salary	Bonus	Other Long term benefits	Total
		P'000	P'000	P'000	P'000
G Hassam	12	1,850	900	414	3,164
Total executive directors		1,850	900	414	3,164

(ii) Long-term emoluments

Share option plans

Name	No. of options (SOS)	No of grants-CSP	Strike price (Pula)	Exercised	Forfeited	Outstanding	Expiry date
2012							
G Hassam							
Granted 2010	87,492	34,664	10.48	-	-	122,156	2020
Granted 2011	-	22,009	-	-	-	22,009	2021
Granted 2012	-	113,904	-	-	-	113,904	2022
Total	87,492	170,577				258,069	

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 aspects 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 BIHL 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 consent of the Chairperson (and, in the case of executive Directors, BIHL's Chief Executive Officer) in regard to appointments to the Boards of other companies.

Dealings in listed securities

BIHL complies with the BSE Listings requirements in respect of share dealings by its Directors. In terms of BIHL's closed period policy, all Directors and staff are precluded from dealing in BIHL securities, until the release of BIHL'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). A pre-approval policy and process for all dealings in BIHL securities by Directors and selected key employees are strictly followed. Similar trading policies regarding personal transactions in all financial instruments are enforced at BIHL's portfolio investment companies. A summary of Directors' dealings is listed on page 198 of this annual report. The Group Company Secretary regularly disseminates written notices to inform the Directors, executives and employees regarding insider trading legislation and advises them of closed periods.

Statutory actuary

Mr. Giles Waugh is an independent statutory actuary who is not in the employ of BIHL. He is responsible for assisting the Board in all actuarial matters and conducts the actuarial valuation of BIHL. 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 131.

Communication with stakeholders

BIHL is committed to a policy of effective communication and engagement with its stakeholders on issues of mutual interest. These include statutory, regulatory, investor relations and other directives, pronouncements and press releases regulating the dissemination of information by BIHL and its Directors, employees, officers and other authorised persons. Communications also include the rationale behind major new business developments. Financial results presentations were made to financial analysts during the financial year. In addition, personal meetings with analysts and fund managers/trustees were arranged when appropriate. BIHL published its interim and annual results in the media on 28 August 2012 and 01 March 2013 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 AGM.

CORPORATE GOVERNANCE REPORT
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Forensics
BIHL 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 BIHL. The commitment to combating financial crime is designed to counter the threat of white collar crimes including fraudulent acts and malicious intentional acts that damage BIHL's good standing. A zero tolerance approach is applied to these matters and all alleged offenders are prosecuted.

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

Strategic risk management
In acknowledging its responsibility for strategic risk management within BIHL, the Board has tasked the Audit and Risk Committee to ensure that the 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 policies and procedures.

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

The role of risk management is, therefore, to enhance the organisation's ability to manage, and not necessarily avoid or eliminate every risk, but to ensure that the overall risk profile remains within acceptable limits. 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 this financial year, and cover all material business activities of BIHL.

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

Rigorous policies, procedures and methodologies have been adopted and implemented throughout BIHL, 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 112 of the annual report.

Financial reporting
the minimum financial reporting standards for BIHL financial statements are compliant with the relevant International Financial Reporting Standards and the Companies Act.

Internal audit
BIHL's internal audit function is co-ordinated at Sanlam Group level by the Audit executive of Sanlam Limited. 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 this function is 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 within disclosed thresholds of materiality. The external auditor's plan is reviewed by the Audit

and Risk Committee to ensure that significant areas of concern are covered, without infringing on the external auditor's independence and right to the audit. There exists close cooperation between the internal and external auditors to ensure that there is adequate coverage of all material areas of BIHL's business, sharing of information and minimisation of duplicated effort.

Company secretary and professional advice

Mr. Topiwa Chilume was appointed by the Board with effect from 01 January 2012 in accordance with the requirements of the Company's Act, as the Group Company Secretary, acting as the Company Secretary for all subsidiaries.

The Group Company Secretary is responsible for the execution of all relevant and regulatory requirements applicable to those positions, including those set out in the Companies Act of Botswana (Companies Act, 2003). The Group Company Secretary oversees the induction of new directors, including directors of subsidiary companies, as well as the ongoing education of directors.

All directors have unlimited access to the advice and services of the Group Company Secretariat, which office is accountable to the Board for ensuring that procedures are complied with and that sound corporate governance and ethical principles are adhered to. If appropriate, individual directors are entitled to seek independent professional advice concerning the discharge of their responsibilities at BIHL's expense. The Group Company Secretary attends all Board and Committee meetings.

Approval of annual financial statements

The financial statements of BIHL were reviewed by the Audit and Risk Committee, approved by the Board and can be signed off by any two Directors. In practice though, they are usually signed on behalf of BIHL by the Chairperson and BIHL's 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 2013 financial year. Their statement in this regard is also contained in the statement of Directors' responsibility for annual financial statements.

CORPORATE GOVERNANCE REPORT
CONTINUED

KING III INTEGRATED REPORT CHECK LIST

- Our goal is best practice in Corporate Governance
- We do more than what is required
- Entrenched Corporate Governance Culture

As a Group, BIHL has always strived to be leading class with our approach to Corporate Governance. We do this because we recognise the importance of good Corporate Governance to the long-term sustainability of BIHL. We have always done more than is required in the quest for fairness and transparency.

In the world of Corporate Governance the King III report is considered the keystone to best practice in Governance. What the King Reports have done is provide a suggested approach to achieve maximum transparency. The approaches are guidelines rather than actual steps one must take. This is in recognition of the many circumstances that the world's organisations will find themselves in.

At the core of the King III requirements is what is called the Integrated Report. Chapter 9 of the King III Code states that companies should prepare Integrated reports every year, which should convey adequate information about the operations of the company, the sustainability issues pertinent to its business, the financial results and the results of its operations and cash flows. The Integrated Report is expected to be focused on substance over form and should disclose information that is Complete, Timely, Relevant, Accurate, Honest, Accessible and Comparable with the past performance of the company, and should also contain forward-looking information.

With this overarching requirement, we have developed a checklist directly from the King III Code on Corporate Governance, which aims to consolidate all the Integrated Reporting Disclosure requirements prescribed by King III. This Integrated Reporting Disclosure checklist is not representing the Corporate Governance Requirements as prescribed, but is rather an extract of the Disclosure requirements only.

During the year under review we have taken a bold step and have included our Integrated reporting checklist this year in this report (pg 106-111). This checklist provides a yardstick of how well we are doing against what is considered world best practice. Readers will see that the BIHL Group on the whole is very well aligned. Where we feel we can do better or are not aligned. Plans are in place to tackle and improve.

We have always been abundantly aware of the enormous responsibility we carry as the BIHL Group towards the many investors, partners, shareholders and policyholders of which expect us to ensure we are here into the future. It is with this background that we will continue to improve how we tackle Corporate Governance. We aim to do more than simply what we are required to do.

CORPORATE GOVERNANCE REPORT
CONTINUED

Summary of King III Principles	Status	Current level of com- pliance (Full/ Partial/ None)	Action Plans for remaining issues	Due Dates
Chapter 1 - Ethical leadership and corporate citizenship				
1.1 The Board should provide effective leadership based on an ethical foundation.	The Board monitors ethical issues through the Audit and Risk Committee. The Code of Ethics had been endorsed by the Board		A code of good practice will be drafted and adopted.	2013
1.2 The Board should ensure that the company is and is seen to be a responsible corporate citizen.	The Board recognises its obligation to contribute to socio economic goals and accordingly conducts its business through operating policies that address the potential environmental impacts of its business activities.			
1.3 The Board should ensure that the company's ethics are managed effectively.	The Board has endorsed the Code of Ethics.			
Chapter 2 - Boards & Directors				
2.1. The Board should act as the focal point for and custodian of corporate governance.	The Board is committed to and fully endorses the principles of Corporate Practices and Conduct.		Currently there is an ongoing review of how to address King III gaps identified.	2013
2.2. The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	A strategy session is held and is attended by all Board members and Group Executive committee members, reviewing Group strategy which is considered and approved annually.			
2.3. The Board should provide effective leadership based on an ethical foundation.	The Board is committed to the highest standard of integrity and ethical conduct. This commitment is confirmed by the Boards endorsement of the Code of the Code of Ethics for the Group.			
2.4. The Board should ensure that the company is and is seen to be a responsible corporate citizen.	The Board has incorporated the BIHL Trust and contributes 1% of its profits after tax to initiatives undertaken by the Trust.			
2.5. The Board should ensure that the company's ethics are managed effectively.	The Board intends to review its charters at least once a year, and ensure that to the greatest extent possible, elements of King III are incorporated.			
2.6. The Board should ensure that the company has an effective and independent audit committee.	The Audit and Risk Committee comprises only non-executive Directors, 2 of which are independent.			
2.7. The Board should be responsible for the governance of risk.	The Risk Department reports directly to the Board through the Audit and Risk Committee.			
2.8. The Board should be responsible for Information Technology (IT) governance.	The Board has approved the IT Governance Charter.		The Board is developing a tight-loose matrix	2013
2.9. The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Reassurance on compliance is given to the Board by the Group Compliance function on the implementation and execution of the applicable laws, rules and conduct.			2013
2.10. The Board should ensure that there is an effective risk-based Internal Audit.	The Group is audited regularly by Sanlam internal auditors who audit in accordance with appropriate risk based methodologies.			

2.11.	The Board should appreciate that stakeholders' perceptions affect the company's reputation.	The Board should manage market and stakeholder perceptions in accordance with a broad based Group wide communications and public relations strategy		The development of a comprehensive Stakeholder Engagement Strategy and Communication Policy had been finalized and continue to be implemented This is ongoing.	
2.12.	The Board should ensure the integrity of the company's Integrated Report.	The Board reports annually on the performance of the company issues of corporate governance and annual financial statements in the Annual Report. The Audit Committee reviews it and recommends it for approval by the Board			
2.13.	The Board should report on the effectiveness of the company's system of internal controls.	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.			
2.14.	The Board and its directors should act in the best interests of the company.	Every director upon appointment is given an information pack comprising duties of a director in terms of the Companies Act, the Company's constitution, and the latest available annual report. In addition the directors fill in declarations of interest register once a year.			
2.15.	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act.	Assessment is done, once a year, as to whether each business in the Group is a going concern. If a particular business is not a going concern, appropriate escalation/ recommendation is made to the Board.			
2.16.	The Board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board.	The Chairman of the Group and the Chairmen of each significant subsidiary are independent non-executive directors. The CEO of the Group is not the Chairman of the Board. The same applies at each significant subsidiary.			
2.17.	The Board should appoint the chief executive officer and establish a framework for the delegation of authority.	The Board has appointed a CEO and the approval frameworks have been adopted at both the Group and subsidiaries			
2.18.	The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	Currently the Board comprises 9 non-executive directors out of a Board of 10 directors. Of the non-executive directors, 5 are independent			
2.19.	Directors should be appointed through a formal process.	The Board has a Nominations Committee which follows a laid down process in the appointment of directors. The members of the Nominations Committee are non-executive directors and it is chaired by an independent non-executive director.			
2.20.	The induction of and ongoing training and development of directors should be conducted through formal processes.	Induction of new directors is in place.		A strategy on on-going training and development of directors will be developed.	2013
2.21.	The Board should be assisted by a competent, suitably qualified and experienced Company Secretary.	The appointment of the Company Secretary complies with the provisions of the Companies Act.			

CORPORATE GOVERNANCE REPORT
CONTINUED

2.22. The evaluation of the Board, its committees and the individual directors should be performed every year.	Evaluations of each of the Board and its Committees is done annually.			2013
2.23. The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.	All Board Committees' Chairmen and Chairmen of the main subsidiaries are members of the Board and report to the main Board as an agenda item.			
2.24. A governance framework should be agreed between the group and its subsidiary boards.	The Group has adopted a compliance statement based on the code published by the Financial Reporting Council of the UK, subject to the exceptions highlighted in the most recent annual report.			2013
2.25. Companies should remunerate directors and executives fairly and responsibly.	The Group completed remuneration review, which was approved June 2012. Directors fees (retainer and sitting allowance) were approved at the 2012 AGM.			
2.26. Companies should disclose the remuneration of each individual director and certain senior executives.	Directors remuneration is disclosed in the annual report.			
2.27. Shareholders should approve the company's remuneration policy.	Currently shareholders do not approve the remuneration policy.		The remuneration policy will be tabled at the next Annual General Meeting.	
Chapter 3 - Audit Committees				
3.1. The Board should ensure that the company has an effective and independent Audit Committee.	The Board has an effective and independent Audit and Risk Committee in place.			
3.2. Audit Committee members should be suitably skilled and experienced independent non-executive directors.	Both independent non-executive directors that sit on the Committee are eminent in their fields.			
3.3. The Audit Committee should be chaired by an independent non-executive director.	Currently the Committee is chaired by a non-executive director.		The Board is reviewing the appointment of an Audit Committee that is an independent non-executive Director	2013
3.4. The Audit Committee should oversee integrated reporting.	The annual report is fully compliant with the principles of integrated reporting. The Board Group has, in the charters to be adopted, and which will be cascaded to the Audit and Risk Committee, annual meeting plans which ensure that reporting by management occurs on a integrated basis.		A comprehensive Integrated and Sustainability Report for will be done in 2013.	2013
3.5. The Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities.	The BIHL CAM is being developed and implementation will commence in 2013.			2013
3.6. The Audit Committee should satisfy itself of the expertise, resources and experience of the company's finance function.	Suitably qualified individuals have been appointed to oversee all financial aspects of the company.			
3.7. The Audit Committee should be responsible for overseeing of Internal Audit.	Internal Audit reports into the Audit and Risk Committee.			

3.8.	The Audit Committee should be an integral component of the risk management process.	Currently the Committee establishes the extent to which management has established effective risk management in the Group by reviewing the risk policy and strategies for the Group.			
3.9.	The Audit Committee is responsible for recommending the appointment of the External Auditor and overseeing the external audit process.	The Committee makes recommendations to the Board regarding the appointment of the External Auditors. The Committee also reviews the external audit plan to ensure that key significant areas are covered.			
3.10.	The Audit Committee should report to the Board and shareholders on how it has discharged its duties.	The Chairperson of the Committee will report to each Board meeting and give feedback from the Committee's findings and recommended actions.		A report in the appropriate format will be included in the next annual report.	2013
Chapter 4 - The Governance of risk					
4.1.	The Board should be responsible for the governance of risk.	Risk Policy approved		Policy shall be reviewed annually.	
4.2.	The Board should determine the levels of risk tolerance.	Risk Appetites and Thresholds approved in conjunction with Risk Policy			2013
4.3.	The Risk Committee or Audit Committee should assist the Board in carrying out its risk responsibilities.	The Audit Committee has been delegated through the Audit Committee Charter and discusses the Risk Reports quarterly during Audit Committee meeting		Ongoing	
4.4.	The Board should delegate to management the responsibility to design, implement and monitor the risk management plan.	The Audit Committee has been delegated through the Audit Committee Charter and monitors risk through the risk management plan in terms of the Risk Policy.		Ongoing	
4.5.	The Board should ensure that risk assessments are performed on a continual basis.	Risk assessments are conducted continuously in terms of the risk management plan and reported through the Risk Report. Self – assessments of the risk management framework are conducted and the result shared with the Board.		Ongoing	
4.6.	The Board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	Risk is identified, assessed and monitored in accordance with the risk management process in terms of the Risk Policy.		Ongoing	
4.7.	The Board should ensure that management considers and implements appropriate risk responses.	Risk Reports indicating identified risks and management action by management is submitted to the Board quarterly.		Ongoing	
4.8.	The Board should ensure continuous risk monitoring by management.	The Board reviews the management action on the quarterly Risk Report.		Ongoing	
4.9.	The Board should receive assurance regarding the effectiveness of the risk management process.	A Self – Assessment exercise is conducted and the results shared with the Board.			2013
4.10.	The Board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.	The Board reviews the management action on the quarterly Risk Report.			2013

CORPORATE GOVERNANCE REPORT
CONTINUED

Chapter 5 - The Governance of Information Technology				
5.1. The Board should be responsible for Information Technology (IT) Governance.	The Board approved the BIHL IT Governance Charter this year. This sets out Boards responsibilities with respect to IT.			
5.2. IT should be aligned with the performance and sustainability objectives of the company.	IT is represented at all subsidiary (business) strategy meetings in order that implementation of the business strategy is known and prepared for by IT.		Ongoing.	
5.3. The Board should delegate to management the responsibility for the implementation of an IT Governance Framework.	There is an IT Steering Committee and various project Steerco's. IT Governance is executed through these as well as Exco's, Manco's.		Full operationalisation of the IT Steerco.	2013
5.4. The Board should monitor and evaluate significant IT investments and expenditure.	Approval for significant IT projects is sought from the board. The board is kept informed on project progress by the project owner.		Ongoing.	
5.5. IT should form an integral part of the company's risk management.	Done on an ongoing basis.			
5.6. The Board should ensure that information assets are managed effectively.	The Board relies on Internal Audit to monitor but information is rigorously archived and retained far beyond the statutory 7 year requirement on the IT Platform. Information Security is not only about information in computers.		Need an Information Security Policy for each subsidiary. followed by campaign to raise awareness of all staff.	2013
5.7. A Risk Committee and Audit Committee should assist the Board in carrying out its IT responsibilities.	Reporting on IT is done through the Audit Committee.			
Chapter 6 - Compliance with laws, codes, rules and standards				
6.1. The Board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.	Compliance Policy approved by Board			
6.2. The Board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.	Board induction on Compliance to be conducted.		Ongoing	2013
6.3. Compliance should form an integral part of the company's risk management process.	Implementation of the approved Compliance Policy commenced in Q4 2012 and is expected to conclude at the end of Q2 2013.		Ongoing	2013
6.4. The Board should delegate to management the implementation of an effective Compliance Framework and processes.	The Board has delegated to management the implementation of the compliance framework. As aforesaid the implementation of the Compliance Policy shall only commence in Q4 2012		Ongoing	2013

Chapter 7 – Internal Audit				
7.1. The Board should ensure that there is an effective risk-based internal audit.	There is an internal audit function provided by Sanlam			
7.2. Internal audit should follow a risk-based approach to its plan.	Internal audit follow a risk-based approach			
7.3. Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.	Internal audit provides a written assessment of the controls on an annual basis.			
7.4. The Audit Committee should be responsible for overseeing internal audit.	Internal audit reports directly to the audit committee quarterly and their annual plan and budget are also approved by the audit committee			
7.5. Internal Audit should be strategically positioned to achieve its objectives.	The internal audit is strategically positioned to achieve its objectives.			
Chapter 8 - Governing stakeholder relationships				
8.1. The Board should appreciate that stakeholders' perceptions affect a company's reputation.	The Group is committed to a policy of effective communication and engagement with its stakeholders on issues of mutual interest. This is evidenced by previous crisis management.		Further crisis management training and induction workshops for Directors.	2013
8.2. The Board should delegate to management to proactively deal with stakeholder relationships.	Management has been delegated the powers to deal with directives, financial results presentations, press conferences, personal meetings, client briefings, annual reports and preparations for the annual and other general meetings.			
8.3. The Board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.	The Board has the responsibility to ensure that satisfactory and transparent engagement takes place with all stakeholders.			
8.4. Companies should ensure the equitable treatment of shareholders.	The Board must ensure that key company information is disseminated to all stakeholders at the same time.			
8.5. Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.	There is the Annual Report, AGM and results announcements, and other press briefings.			
8.6. The Board should ensure that disputes are resolved effectively, efficiently and expeditiously as possible.			TBA after further consideration to gain better understanding.	
Chapter 9 – Integrated reporting and disclosures				
9.1. The board should ensure the integrity of the company's integrated report.	The Board reports annually on the performance of the company issues of corporate governance and annual financial statements in the Annual Report.			
9.2. Sustainability reporting and disclosure should be integrated with the company's financial reporting.	The Board presents in the financial report a balanced and understandable assessment of the company's position and prospects.			
9.3. Sustainability reporting and disclosure should be independently assured.	Financial reporting is prepared in accordance with International Financial Reporting Standards and the Botswana Companies Act.			

RISK REPORT

COMBINED ASSURANCE MODEL

BIHL has implemented a Combined Assurance Model (CAM) in line with principle 3.5 of the King III code on Corporate Governance which the organisation has adopted. CAM was implemented at Botswana Insurance Fund Management (Bifm) during 2012. Botswana Life Insurance Limited reviewed its CAM which was introduced the previous year. The BIHL Sure! CAM is scheduled for the 2013 financial year.

Purpose of the CAM

- To give the Board of directors an idea of the type of assurance for major processes and risks in the organisation
- To provide the Board with the comfort that the business has enough assurance providers in place to mitigate a particular risk
- To ensure gaps are easily identified

Benefits of the CAM

- There is a coordinated effort by all assurance providers to ensure that all key risks are identified
- Gaps on assurance oversight are identified to ensure there is sufficient coverage of major risks
- Reporting and transparency to the Board is improved, thus assisting the Board with disclosures to relevant stakeholders
- The Board and Audit Committee rely on the document when satisfying themselves that significant risk areas have been identified and suitable controls exist to mitigate these risks

Three lines of defence governance model

First Line of Defence (Management)

- The first line of defence is management, as they are accountable for all risks in the organisation
- Their accountability in managing risk is either implicit or explicit

Second Line of Defence (Internal Assurance Providers)

- The risk function, forensics, compliance, actuarial and investment management function act as the second line of defence
- The second lines of defence are there to assist management in mitigating by giving them advice and providing assurance on key risks

Third Line of Defence (External Assurance Providers)

- The third line of defence is internal audit, external audit, statutory actuary and any other structures that may be used from time to time
- These are the most independent assurance providers
- Their assurance is more objective and as such they provide unbiased advice on the management of key risks

Risk Management and Compliance Policies

The following policies have been approved by the Board and are now in place to ensure a robust risk management framework in the BIHL Group:

1. BIHL Group Risk Assurance Framework – The framework includes the Risk management policy and plan, Risk Framework, Maturity Model and Risk Escalation policy and Definition of risks.

Objective:

- To set out the context of the risk process within BIHL.
- To ensure that risks affecting the objectives of BIHL and its subsidiaries are identified, assessed, mitigated, monitored and communicated effectively.
- To set out the responsibilities and accountabilities of management towards the risk agenda in the business.
- To highlight the role of the CEOs within the group in terms of setting the right tone at the top.
- To standardise the definition of risks so that the understanding of risk is the same for everyone within the group.

2. BIHL Group Compliance Policy and Charter – This sets out the conduct and behavior of individuals within the Group. The accountabilities and duties and responsibilities of compliance are also identified, so as to ensure that the company complies with laws, internal processes and procedures and contracts.

Objective:

- Establish group compliance principles and standards (the "tight principles")
- Obtain endorsement from and report Group compliance status to the BIHL Board and other relevant Board Committees
- Coordinate and facilitate generic compliance projects and training initiatives
- Maintain a central log of compliance issues
- Carry out reviews of the status of compliance with tight principles within the business entities
- Encourage and promote the appropriate culture, awareness, acknowledgement of accountability and acceptance of responsibility
- Ensure that all matters included in the BIHL Compliance Risk profile have an appointed person or entity responsible for compliance with the relevant compliance requirements
- Act as a central reference point for relevant compliance knowledge and information
- Monitor and report on compliance Risk appetite, including any deviations or discrepancies
- Act as the central point of contact with the regulators where necessary

3. BIHL Group Anti-money laundering and the countering of the financing of terrorism (AML and CFT) Policy – The policy addresses BIHL's commitment to participating in international efforts to combat money laundering and the funding of terrorist and criminal activities.

The policy sets the high level standards for BIHL and its subsidiaries to formulate, document and implement detailed measures to proactively ensure compliance with the standards, giving due regard to the specific business environment and jurisdiction in which they operate.

The objective of this policy is thus to ensure that the necessary mechanisms are in place to ensure that the Group is in compliance with the AML/CTF requirements as set out by the Botswana Financial Intelligence Agency.

4. BIHL Group Financial Crime Combating Policy – The policy is in respect of the combating of unlawful conduct in general, and specifically financial crime in the Group. The policy is a tight item in terms of the BIHL governance structure. The policy also contains the BIHL zero tolerance of financial crime and unlawful conduct as well as a schedule of offences.

The objective of the policy is to ensure that staff and other stakeholders who deal with the company know the appropriate behavior expected of them and it also clearly spells out the company's stance on non-compliance with the policy. Management is accountable to ensure that there is compliance with the policy.

5. BIHL Business Continuity Policy – The policy aims to achieve the following:

Through the implementation of oversight mechanisms and other measures, ensure that the BIHL Group has the ability to recover from a significant unforeseen event (Horizontal dimension).
Ensure through the definition of minimum standards, coupled to a business driven maturity process, that individual businesses are able to recover from a disaster (Vertical dimension).

The policy also aims to address external factors such as potential natural disasters, criminally or politically motivated attacks, as well as internal events such as significant business or information technology related failures that have an impact on the ability of BIHL to function operationally.

Risk Types

The Group is explosed to the following main risks:

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

RISK REPORT
CONTINUED

Risk categories (primary)	Risk Types (secondary) and description
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:**
	Equity risk: the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices.
	Interest rate risk: the risk that the value of an unmatched financial instrument will fluctuate as a result of changes in interest rates and the risk that mismatch losses will be incurred in respect of a matched asset/liability position following changes in interest rates.
	Currency risk: the risk that the Pula value of a financial instrument or liability will fluctuate owing to changes in foreign exchange rates.
	Property risk: the risk that the value of investment properties will fluctuate as a result of changes in the environment.
	Asset Liability mismatching risk: the risk of a change in value as a result of a deviation between asset and liability cash-flows, prices or carrying amounts. ALM risk originates from changes in market risk factors.
	Concentration risk: the risk of losses associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).
	Market Liquidity Risk (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 minimize a loss (or make the required profit)
Credit risk	**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 risks includes:**
	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 today.
	Settlement risk: risk arising from the lag between the value and settlement dates of securities transactions.
	Reinsurance counterparty risk: concentration risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings.
	Credit spread risk[1]: the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure.

Risk categories (primary)	Risk Types (secondary) and description
Funding Liquidity risk	**Funding Liquidity risk is the risk relating to the difficulty / inability to accessing / raising funds to meet commitments associated with financial instruments or policy contracts.**
Insurance risks (Life Business)	**Insurance risk (Life business) - relates to operations regulated under the Long-Term Insurance Act: 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:**
	Underwriting risk: the risk that the actual experience relating to mortality, longevity, disability, medical (morbidity) and short-term insurance risks will deviate negatively from the expected experience used in the pricing of solutions and valuation of policy liabilities.
	Persistency risk: the risk of financial loss due to negative lapse, surrender and paid-up experience.
	Expense risk: the risk of loss due to actual expense experience being worse than that assumed in premium rates and the valuation of policy liabilities.
	Concentration risk: the risk of financial loss due to having written large proportions of business with policyholders of the same / similar risk profile.
Insurance risks (Short-term Insurance Business)	**Insurance risk (Short-term insurance business) - relates to operations regulated under the Short-Term Insurance Act: 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:**
	Claim risk (Premium and Reserve risk): refers to a change in value caused by ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated. Claims risk are often split into – Reserve risk (relating to incurred claims) and Premium risk (relating to future claims).
	Non-Life Catastrophe risk: the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning of pricing and provisioning assumptions related to extreme or exceptional events.

(Endnotes)
1 Strictly speaking credit spread risk is part of market risk, however we have included it under credit risk for convenience - the factors that will be used in the economic capital calculations for credit spread risk are similar to those used for other credit risks (i.e. default risks, downgrade risks, etc).

RISK REPORT
CONTINUED

Resebetse in a nutshell

In BIHL Group's effort to observe international standards of governance and transparency we launched Resebetse, an anonymous tip-off service. Resebetse uses a range of communication platforms to fulfil the service including cellphone, landline and e-mail. The service always receives any messages sent in a number of languages including English and Setswana.

Compliance Management

The objective of compliance management is to ensure that the BIHL Group is run with integrity, in compliance with all applicable regulatory requirements, internal policies and that business is conducted in accordance with the highest ethical standards.

The following compliance policies have now been approved by the Board for the BIHL Group;

1 **BIHL Group Compliance Policy Charter**
2. **BIHL Group Anti-money laundering and the countering of the financing of terrorism (AML and CFT) Policy**
3. **BIHL Group Financial Crime Combating Policy**

Following approval of the above policies, a project was commenced and completed in 2012 that involved development of the necessary tools, manuals, templates and other working documents that will ensure full implementation of the policies. The focus in 2013 will be on implementation of the policies and training of staff in order to further entrench the culture of compliance which exists presently. These initiatives will result in a compliance framework that ensures systematic and proactive compliance management. This shall enhance compliance risk identification, assessment, monitoring and reporting in the Group in line with the BIHL Compliance Policy Charter.

Resebetse - Fraud Hotline

Previously the only subsidiary with a functional tip - off hotline in the BIHL Group was Botswana Life. During the 2012 financial year BIHL extended the tip-offs hotline to all the other subsidiaries.

The Group utilises the DeloitteTip-offs Anonymous service, an anonymous hotline, which has been renamed "Resebetse".It provides all stakeholders with access to a 24/7/365 call centre via calls, e-mails and letters. The centre is able to take calls in several languages including English and Setswana.

The anonymity of the hotline enables anyone to freely report on any issues that could have an impact on the organisation. It therefore assures employees that they are free to make any reports without fear of prejudice or retaliation. The service is backed by a policy called the BIHL Group Whistle Blowing Policy. The policy protects any one making a tip-off against being victimized.

All tip offs received by the call centre are then referred to BIHL for investigation and follow up.

Business Continuity Management

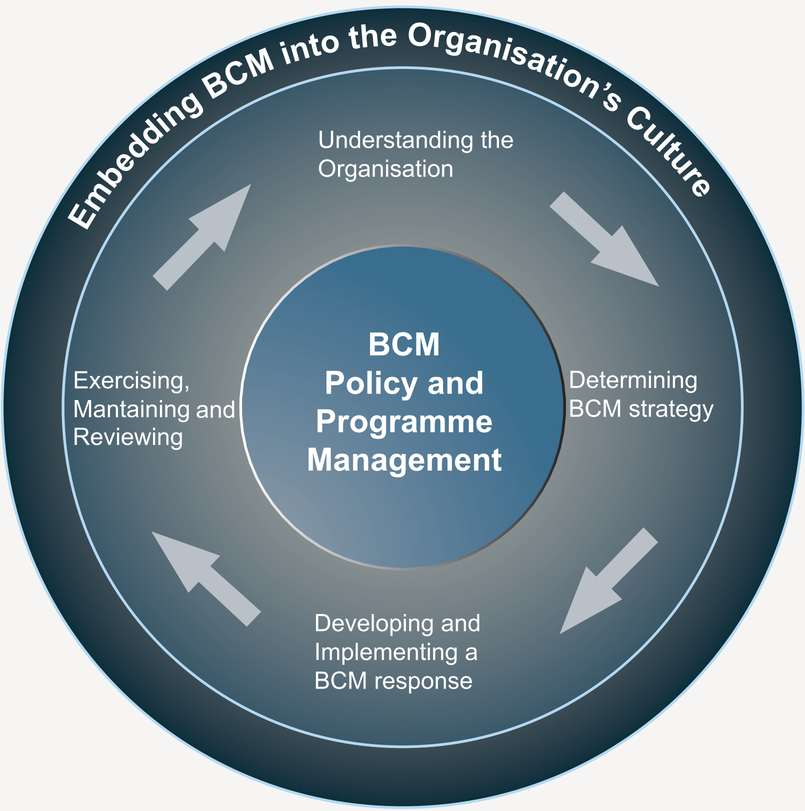
Business Continuity Management (BCM) is a holistic management process that identifies potential threats to an organisation and the impact on the business operations that those threats, if realised, might cause. It also provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value creating activities.

BIHL is committed to the successful application of BCM to increase its resilience and ability to absorb, respond and recover from disruptions.

In 2012 the focus, has been the development of the BCM Framework. The BIHL Group BCM Policy was submitted to and approved by the Board; and this set the tone for the implementation of a BCM program across the Group. As part of the exercise, the review and development of business continuity plans for Group businesses was initiated and continue to be developed. Business Continuity champions for business units were also identified and trained to assist in the implementation of a robust business continuity program.

In 2013 the aim is to set up a business continuity recovery centre for the BIHL Group at which business continuity plans can be continually tested. Efforts to build a culture of business continuity awareness shall continue with the aim of having staff that fully understands its role in BCM and participates actively in ensuring the BIHL Group's resilience.

The BCI Professional Practises



Business Continuity Model

BIHL GROUP

Annual financial statements

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012.

Nature of Business

The Company and its subsidiaries ("the Group") underwrite all classes of long-term insurance, short-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 2012 of P394 million (31 December 2011: P471 million). Shareholders' equity at 31 December 2012 was P1.945 billion (31 December 2011: P1.691 billion). The results are fully explained in the financial statements.

Stated Capital

The issued and fully paid share capital at 31 December 2012 and 2011 consists of 281,070,652 ordinary shares.

Dividends

A gross interim dividend of 15 thebe per share was declared during the year. The directors propose a final dividend of 20 thebe per share; making the total dividend for the year 35 thebe per share (31 December 2011: 66 thebe per share).

Directors' Shareholdings

The aggregate number of Botswana Insurance Holdings Limited shares held directly or indirectly by directors of the Company is 146,586 (31 December 2011: 121,610). 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	
U. Corea	
J. Hinchliffe	
M. Mpugwa	
H. Werth	
M. Seboni	
T. Schultz	
G. Hassam	Group Chief Executive Officer
R. Dommisse	Appointed 20 November 2012
T. Gamedze	Appointed 20 November 2012
M. Dawes	Resigned 07 November 2012
F. Kellerman	Resigned 16 August 2012

Company Secretary and Registered Address

T. Chilume,
Block 5 Fairgrounds Financial Centre,
Plot 50374
P. O. Box 336,
Gaborone

Independent Auditors

Ernst & Young
2nd Floor, Letshego Place
Gaborone, Botswana

Statutory Actuary

G.T. Waugh

Bankers

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

DIRECTORS' STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2012

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 01 March 2013 and were signed on their behalf by:

B Dambe-Groth
Chairperson

G Hassam
Group Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

TO THE MEMBERS OF BOTSWANA INSURANCE HOLDINGS LIMITED

Report on the Financial Statements

We have audited the accompanying Group and Company annual financial statements of Botswana Insurance Holdings Limited, which comprise the statement of financial position as at 31 December 2012, income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 121 to 222.

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 control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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 control 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 give a true and fair view of the financial position of Botswana Insurance Holdings Limited, Group and Company as of 31 December 2012, and of 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

Practicing Member : B. Ndwapi (19980026)
Certified Auditor

13th May 2013

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

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

		Group		Company	
	Note	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Assets					
Property and equipment	2	10,911	12,561	2,064	1,118
Intangible assets	3	154,001	146,735	6,589	-
Long-term Reinsurance assets	8.7	9,041	17,467	-	-
Investment property	4.4	495,798	361,466	-	-
Investments in associates and joint ventures	4.5	1,268,707	993,583	-	-
Financial assets at fair value through profit or loss		12,517,189	9,756,100	-	-
Bonds (Government, public authority, listed and unlisted corporates)	4.1	5,475,367	4,499,728	-	-
Equity investments (Local and foreign)	4.2	6,786,531	4,896,650	-	-
Policy loans and other loan advances	4.3	138,235	146,540	-	-
Money market instruments	4.1	117,056	213,182	-	-
Interest in subsidiaries	4.5	-	-	323,391	317,277
Deferred tax asset	10	190	194	-	-
				-	-
Trade and other receivables	5	185,080	191,699	1,578	668
Tax refund due		15,412	-	-	-
Related party balances	19	-	-	11,474	7,459
Cash,deposits and similar securities	23	760,539	1,248,600	19,755	12,323
Total assets		15,416,868	12,728,405	364,851	338,845
Equity and Liabilities					
Equity attributable to equity holders of parent					
Stated capital	6	130,821	130,821	130,821	130,821
Non - distributable reserves	7	583,724	468,891	13,717	12,945
Retained earnings		1,230,416	1,091,083	67,598	96,887
Total equity attributable to equity holders of parent		1,944,961	1,690,795	212,136	240,653
Non- controlling interests	9	33,651	36,050	-	-
Total equity		1,978,612	1,726,845	212,136	240,653
Liabilities					
Policyholder liabilities under:	8	12,966,214	10,587,045	-	-
Insurance contracts		5,592,072	4,573,612	-	-
Investment contracts		7,374,142	6,013,433	-	-
Deferred tax liability	10	17,939	12,726	-	-
Tax payable		5,257	11,024	638	-
Related party balances	19	4,157	6,691	118,089	77,146
Trade and other payables	11	444,689	384,074	33,988	21,046
Total equity and liabilities		15,416,868	12,728,405	364,851	338,845

GROUP CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
Revenue					
Net insurance premium income	12	1,949,585	1,767,046	-	-
Gross Insurance premium income		1,970,413	1,782,053	-	-
Insurance premium ceded to reinsurers		(20,828)	(15,007)	-	-
Other income		1,162,607	1,028,629	158,105	230,866
Fee revenue		74,700	110,944	-	-
Investment income	13.1	628,915	749,577	158,105	230,866
Profit on sale of subsidiary	4.6	6,075	33,785	-	-
Net gains from financial assets held at fair value through profit or loss	13.2	452,917	134,323	-	-
Total revenue		3,112,192	2,795,675	158,105	230,866
Net insurance and investment contract benefits and claims		(2,314,707)	(1,935,869)	-	-
Gross insurance benefits and claims	14	(914,906)	(927,849)	-	-
Reinsurance claims	14	10,730	20,390	-	-
Change in liabilities under investment contracts		(383,646)	(400,986)	-	-
Change in policyholder liabilities under insurance contracts	8.8	(1,018,459)	(616,482)	-	-
Change in contract liabilities ceded to reinsurers	8.8	(8,426)	(10,942)	-	-
Expenses		(508,636)	(465,265)	(29,356)	(21,914)
Sales remuneration		(219,165)	(219,687)	-	-
Administration expenses	15	(289,471)	(245,578)	(29,356)	(21,914)
Profit before share of profit of associates and joint ventures		288,849	394,541	128,749	208,952
Share of profit of associates and joint ventures	4.5	196,482	133,872	-	-
Profit before tax		485,331	528,413	128,749	208,952
Income tax expense	16	(90,936)	(57,083)	(12,443)	(34,353)
Profit for the year		394,395	471,330	116,306	174,599
Profit attributable to:					
- Equity holders of the parent		390,918	462,973	116,306	174,599
- Non-controlling interests		3,477	8,357	-	-
		394,395	471,330	116,306	174,599
Earnings per share (thebe)					
- basic	17	146	174		
- diluted	17	145	173		

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Profit for the year	394,395	471,330	116,306	174,599
Other comprehensive income				
Exchange differences on translation of foreign operations	10,718	30,649	-	-
Total comprehensive income for the year	405,113	501,979	116,306	174,599
Total comprehensive income attributable to:				
- Equity holders of the parent	401,636	493,622	116,306	174,599
- Non-controlling interests	3,477	8,357	-	-
	405,113	501,979	116,306	174,599

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to equity of holders of parent				
	Stated capital P'000	Treasury shares P'000	Share based payment reserve P'000	Statutory capital reserves P'000	Solvency reserve P'000
Group					
For the year ended 31 December 2011					
Opening balances	130,821	(128,015)	57,125	494,168	-
Foreign currency translation	-	-	-	-	-
Profit for the year	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Share based payment expense	-	-	11,308	-	-
(Transfer to statutory reserve)/ Transfer from retained income	-	-	-	79,392	954
(Transfer from consolidation reserve)/ Transfer to retained income	-	-	-	-	-
Cost of treasury shares acquired/(disposed)	-	-	-	-	-
Dividends paid	-	-	-	-	-
Share Trust vested treasury shares	-	15,667	-	-	-
Disposal of subsidiary	-	-	-	-	-
Balance at 31 December 2011	130,821	(112,348)	68,433	573,560	954
For the year ended 31 December 2012					
Opening balances	130,821	(112,348)	68,433	573,560	954
Foreign currency translation	-	-	-	-	-
Profit for the year	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
Share based payment expense	-	-	3,122	-	-
Other movements in share based payments reserves and statutory reserves	-	-	5,245	67,146	(8)
(Transfer from consolidation reserve)/ Transfer to retained income	-	-	-	-	-
Cost of treasury shares acquired/(disposed)	-	11	-	-	-
Dividends paid	-	-	-	-	-
Share Trust vested treasury shares	-	24,026	-	-	-
Disposal of subsidiary	-	-	-	-	-
Balance at 31 December 2012	130,821	(88,311)	76,800	640,706	946
Company					
For the year ended 31 December 2011					
Opening balances	130,821	-	2,340	9,762	-
Profit for the year	-	-	-	-	-
Share based payment expense	-	-	843	-	-
Dividends paid	-	-	-	-	-
Balance at 31 December 2011	130,821	-	3,183	9,762	-
For the year ended 31 December 2012					
Opening balances	130,821	-	3,183	9,762	-
Profit for the year	-	-	-	-	-
Share based payment expense	-	-	772	-	-
Dividends paid	-	-	-	-	-
Balance at 31 December 2012	130,821	-	3,955	9,762	-

	Attributable to equity of holders of parent					
Foreign currency 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
4,009	(107,017)	320,270	923,168	1,374,259	31,588	1,405,847
30,651	-	30,651	-	30,651	(2)	30,649
-	-	-	462,973	462,973	8,357	471,330
30,651	-	30,651	462,973	493,624	8,355	501,979
-	-	11,308	-	11,308	-	11,308
-	-	80,346	(80,346)	-	-	-
-	10,649	10,649	(10,649)	-	-	-
-	-	-	-	-		
-	-	-	(185,507)	(185,507)	(3,588)	(189,095)
-	-	15,667	(18,556)	(2,889)	-	(2,889)
-	-	-			(305)	(305)
34,660	(96,368)	468,891	1,091,083	1,690,795	36,050	1,726,845
34,660	(96,368)	468,891	1,091,083	1,690,795	36,050	1,726,845
10,718	-	10,718	-	10,718	1,822	12,540
-	-	-	390,918	390,918	3,477	394,395
10,718	-	10,718	390,918	401,636	5,299	406,935
-	-	3,122	-	3,122	-	3,122
-	-	72,383	(67,404)	4,979	-	4,979
-	4,405	4,405	(4,405)	-	-	-
-	168	179	-	179	-	179
-	-	-	(157,400)	(157,400)	-	(157,400)
-	-	24,026	(22,376)	1,650		1,650
-	-	-	-	-	(7,698)	(7,698)
45,378	(91,795)	583,724	1,230,416	1,944,961	33,651	1,978,612
-	-	12,102	85,251	228,174	-	228,174
-	-	-	174,599	174,599	-	174,599
-	-	843	-	843	-	843
-	-	-	(162,963)	(162,963)	-	(162,963)
-	-	12,945	96,887	240,653	-	240,653
-	-	12,945	96,887	240,653	-	240,653
-	-		116,306	116,306	-	116,306
-	-	772	-	772	-	772
-	-	-	(145,595)	(145,595)	-	(145,595)
-	-	13,717	67,598	212,136	-	212,136

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
Net cashflows from operating activities		2,032,108	(76,296)	22,348	(588)
Cash generated from/(utilised in) operations	22	1,795,846	(292,719)	33,905	(32,663)
Interest received		329,167	425,096	248	370
Dividend received from equity investments		123,420	35,252	-	-
Dividends received from subsidiaries		-	-	145,595	229,021
Dividends received from associates		35,965	10,832	-	-
Tax paid	16.1	(106,695)	(69,250)	(11,805)	(34,353)
Dividends paid		(145,595)	(185,507)	(145,595)	(162,963)
Net cashflows utilised in investing activities		(2,520,169)	(51,332)	(14,915)	(5,086)
Purchase of property and equipment	2	(4,521)	(6,907)	(1,320)	(1,118)
Purchase of computer software	3	(13,689)	(14,672)	7,481)	-
Increase in investment in subsidiary	4.5	-	-	(6,114)	(3,968)
Purchase of investment properties	4.4	(86,676)	(48,055)	-	-
Proceeds from sale of property		1,779	6,663	-	-
Disposal of subsidiary, net of cash disposed	4.6	(4,697)	2,542	-	-
Loans repaid by JV		-	3,530	-	-
Investment in associate	4.5	(114,607)	(325,010)	-	-
Net movement in investments		(2,297,758)	330,577	-	-
Net (decrease)/ increase in cash and cash equivalents		(488,061)	(127,628)	7,433	(5,674)
Cash and cash equivalents at the beginning of the year		1,248,600	1,376,228	12,323	17,997
Cash and cash equivalents at the end of the year	24	760,539	1,248,600	19,756	12,323

REPORT OF THE STATUTORY ACTUARY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Group Dec 2012 P'000	Group Dec 2011 P'000
Statement of actuarial values of assets and liabilities		
Total assets as per the statement of financial position	15,416,868	12,728,405
Current liabilities, deferred taxation and minorities as per the statement of financial position	(505,693)	(450,565)
Net assets	14,911,175	12,277,840
Actuarial value of policy liabilities	(12,966,214	(10,587,045)
Excess of assets over liabilities	1,944,961	1,690,795
Capital Adequacy Requirement	158,200	128,769
Capital Adequacy Requirement cover	12.29	13.13
Analysis of change in excess of assets over liabilities		
Excess assets as at beginning of reporting period	1,690,795	1,374,259
Excess assets as at end of reporting period	1,944,961	1,690,795
Change in excess assets over the reporting period	254,166	316,536
This change in the excess assets is due to the following factors:		
Investment income	74,751	34,612
Capital gains	10,280	86,739
Total investment return on shareholders' funds	85,031	121,351
Changes in valuation methods or assumptions	6,189	(35,792)
Operating profit	390,634	434,497
Taxation	(90,936)	(57,083)
Surplus for the year after tax	390,918	462,973
Currency translation	10,718	30,651
Movement in consolidation reserve	179	-
Changes in share based payment and treasury shares	9,751	8,419
Total earnings	411,566	502,043
Dividends paid	(157,400)	(185,507)
Total change in excess assets	254,166	316,536

Certification of financial position

I hereby certify that:

- the valuation of Botswana Insurance Holdings Limited as at 31 December 2012, 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), Botswana insurance industry prudential rule BIPR1L and the professional guidance notes of the Actuarial Society of South Africa ("ASSA"): APN103(2012) and SAP104(2012);

- 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 total value of the policyholder liabilities as at 31 December 2012 has, overall, not been affected significantly by changes in valuation assumptions and methodology. The impact of valuation assumption changes on policyholder liabilities are summarised below.

	2012 P mil	2011 P mil
Mortality	(0.4)	(30.0)
Lapse and surrender assumptions	11.5	(9.5)
Expenses	(9.0)	4.3
Economic	1.2	0.0
Other assumption changes	(3.1)	12.6
Data reserve	15.0	(5.4)
Changes in mismatch reserve	(9.0)	(14.4)
Yield curve methodology	0.0	6.6
Total	6.2	(35.8)

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 Group.

Liability Valuation Methods and Assumptions

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

The actuarial value of the policy liabilities is determined using the method as described in Botswana Insurance Industry Prudential Rule BIPR1L as issued by the Non Banking Financial Institutes Regulatory Authority (NBFIRA), which is consistent with the valuation method prescribed in the ASSA's (Actuarial Society of South Africa) APN103 and SAP104 and the valuation of assets at fair value as described in the accounting policy for investments. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne. In the valuation of liabilities, provision is made for:

- the best estimate of future experience;
- the compulsory margins prescribed in the BIPR1l; and
- discretionary margins determined to release profits to shareholders consistent with policy design and company policy.

The value of policy liabilities at 31 December 2012 exceeds the minimum requirements in terms of the BPR1L and the South African Regulations.

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

Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from the medium to long term inflation assumption as given by an economist and appropriate risk gaps for different asset classes. The appropriate asset composition of the various asset portfolios, investment management expenses and taxation at current tax rates are taken into account.
- Unit expenses are based on the 2012 actual expenses and escalated at estimated expense inflation rates per annum. The allocation of initial and renewal expenses is based on functional cost analyses.
- Assumptions with regard to future mortality, disability and disability payment termination rates are consistent with the Group's recent experience or expected future experience if this would result in a higher liability. In particular, mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business.
- Persistency assumptions with regard to lapse, surrender and paid-up rates are consistent with Sanlam's recent experience or expected future experience if this would result in a higher liability.

For the market-related portion of the unbundled business (e.g. those where a portion of the premium is allocated to an accumulation account) the market related liability was taken as the market value of the units notionally credited to the policies. The not market related portion of the liability was calculated as the present value of future charges required for risk benefits and renewal expenses (the 'Pula' reserves). For 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. The unexpired premium reserve assumes that premiums are earned uniformly for the term of the policy and the reserve is subject to a minimum of the surrender value on the policy.

These reserves are calculated using standard actuarial methods and assume that current claims reporting experience is an indicator of future experience.

In the case of policies for which the bonuses are stabilised, the liabilities are equal to the balances of the investment accounts plus corresponding bonus stabilisation reserves.

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 of gross premium 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 10.3% p.a. A discount rate of 10.3% per annum (2011: 10.8%) 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 valuation was done. Future bonuses were provided for at bonus rates that would be declared should an investment return of 10.3% per annum be earned. A discount rate of 10.3% per annum (2011: 10.8%) 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 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. No bonus stabilisation reserve for any class of business was more negative than –7.5% of corresponding liabilities at the valuation date.

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 87.28% for females and 55.83% for females of the AIDS mortality table
- The expense inflation has been increased by 7.14% p.a.
- The discount rate on single premium guaranteed annuities has been decreased by 0.50% p.a.
- The renewal expenses have been increased by 7.8%.
- 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:

	2012 %	2011 %
Gilt return	9.0	9.5
Equity return	12.5	13.0
Property return	10.0	10.5
Cash return	8.0	8.5
Average return	10.0	10.6
Expense inflation	6.0	6.5

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 2012 with effective date of June 2012. The most recent mortality investigation was done in November 2011.

Expenses

Provision for expenses (before adding margins) starts at a level consistent with the company's current experience and allows for a 6.0% escalation per annum thereafter (2011: 6.5%).

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 have been calculated in accordance with section 6 of SAP104 of the Actuarial Society of South Africa.

For Botswana Insurance Holding Limited the maximum capital adequacy requirement is on the ordinary capital adequacy requirement (OCAR) 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 (2011: 25%), 15% in equities (2011: 15%), 10% in property (2011: 10%), and 50% in cash (2011: 50%).

The ratio of accumulated surplus to the Capital Adequacy Requirement of P158.2 million (December 2011: P128.8 million) is 12.29 times (December 2011: 13.13 times).

GTWaugh

GT Waugh
Statutory Actuary
31 March 2013

Annual financial statements

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2012

General information

The Company and its subsidiaries ("the Group") underwrite all classes of long-term insurance, short-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 preparation

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 160. 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 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets).

- Financial assets are not derecognised in their entirety.

The effective date of the amendment is 1 July 2011. There was no impact in the financial statements as the Group did not transfer any financial assets to the extent covered by the amendment,, however if any such transactions take place in the future additional disclosures will be provided.

IAS 12 Income Taxes (Amendment) — Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment did not have an impact on Good Group's financial position, performance or its disclosures as deferred tax has always been calculated based on Capital gains tax as per the legislation.

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.

IAS 1 Presentation of Items of Other Comprehensive Income — Amendments to IAS 1

The amendments to IAS 1 require changes to the presentation of other comprehensive income. Items that would be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The effective date of the amendment is 1 July 2012. This amendment has not impacted the Group as all assets are fair-valued through profit and loss.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 reflects Phase 1 of the Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairments and hedge accounting. The standard classifies financial instruments into two main categories, financial assets 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 at fair value through profit or loss. The treatment prescribed regarding financial liabilities is more or less similar to what is currently required by IAS 39.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)

- Exposure, or rights, to variable returns from its involvement with the investee

And

- The ability to use its power over the investee to affect then amount of the investor's returns.

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee;such party need not hold an equity investment to be considered an investor

- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control)

- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control

- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control

Changes in accounting policies (contnd.)

- Consolidation is required until such time as control ceases, even if control is temporary

The Group is still assessing the impact of the standards to the financial statements. The standards are effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets,liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

In addition, IAS 28 was amended to include the application of the equity method to investments in joint ventures.

The adoption of IFRS 11 will not have any impact on the financial performance or position of the Group as the Joint ventures held by the Group would still maintain their definition after the adoption of the standard.The adoption of IAS 28 will not impact the Group's financial position because the Group has always been equity accounting joint ventures. The standards are effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. An entity is now required to disclose the judgements made to determine whether it controls another entity. The standard is effective for annual periods on or after 1 January 2013. IFRS 12 is a disclosures-only standard and therefore will have no effect on profit or loss, or the equity of the Group. Additional disclosures when compared to current effective IFRS will be required.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. The standard is effective for annual periods on or after 1 January 2013. The adoption of IFRS 13 will affect some of the fair values of certain assets and liabilities and thus affects the profit and equity of the Group as well as disclosures regarding fair values.

Amendments to IAS 19 Employee Benefits

The amendments of IAS 19 remove the option to defer the recognition of actuarial gains and losses, the corridor mechanism. All changes in the defined benefits plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The adoption of these amendments will have no impact as the Group participates in a defined contribution scheme.
The amendment also clarifies the short-term employee benefits will be classified to this category on the basis of expected settlement and no longer when the benefit is due to be settled. Consequently some short-term benefits could be classified as other long-term benefits.

A change in classification of the employee benefits could impact the measurement and disclosures of the related benefits.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

The amendments clarify that rights of set-off referred to in IAS 32 must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event.

These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Improvements to International Financial Reporting Standards – 2009-2011 Cycle

In the 2009-2011 annual improvements cycle, the IASB issued six amendments to five standards, summaries of which are provided below.
The amendments are applicable to annual periods beginning on or after 1 January 2013. Earlier application is permitted and must be disclosed. The amendments are applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

IAS 1 Presentation of Financial Statements

Clarification of the requirements for comparative information

- The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.
- The opening statement of financial position (known as 'the third balance sheet') must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.

IAS 16 Property, Plant and Equipment

Classification of servicing equipment

- The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation

Tax effects of distributions to holders of equity instruments

- The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

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 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 (DPF)	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 performance 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.

Abbreviations and key (contnd)

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.
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 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 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 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 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 counterparty'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.

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 Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the group's own experience. The estimated number of deaths influences the value of the benefit payments and the 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 Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity. The longevity risk has been allowed for in the annuity portfolio. For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on the medium to long term inflation assumption for the Botswana plus a risk gap for different asset classes..

The balance of policyholder liabilities at 31 December 2012 was P5,592 million (31 December 2011: P4,574 million).

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

The investments in un-quoted equity instruments and loan advances have been valued based on the expected cash flows, discounted at the current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence they are subject to significant judgement. Carrying amount at year end P138.2 million (2011: P146.5 million).

(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 PNIL million (31 December 2011: P0.9 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 profit or loss 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 Group 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 Group's own risk exposure.

The carrying value at the reporting date for Life Insurance contract liabilities are P5,592 million (31 December 2011: P4,574 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 P23.5 million (31 December 2011: P 18.6 million)

Provision for future bonuses

Future bonuses of 3% (31 December 2011: 3%) per annum are allowed for in the Financial Soundness Valuation.

Reversionary bonus business

The business is valued on a prospective basis assuming 3% (31 December 2011: 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 P51.4 million (31 December 2011: P48.0 million)

Significant accounting judgements, estimates and assumptions (contnd.)

Participating annuities

There are very few such policies on the book. Those that are participating annuities have been in force for five years on average. The carrying amount of participating annuities is P48.3 million (31 December 2011: P48.6 million) of which P9.1m is for future bonus appropriations.

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 P3.4 billion (Dec 2011: P2.6 billion)

Other non-participating business

Other non-participating business forms less than 6% 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 (net of reinsurance) for other non participating business is P313.7 million, (Dec 2011: P265.2 million)

HIV/AIDS

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 APN 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 P26.5 million (Dec 2011: P31.0 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 Group issues contracts that transfer insurance risk. This section summarises this risk and the way the Group 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 on page 189.

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

Interest income is accounted for by the effective interest rate method.

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 adjusted for when determining the fair value of the investment properties (subject to operating leases) at fair value.

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. Reinsurance asset 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 Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged to the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed what the amortised cost would have been, at the date of reversal, if the impairment loss was not recognised in the past.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. As at year end the reinsurance contracts the Group entered into during the year had impact of P1.3 million loss (31 December 2011: P1.9 million gain) on the Group profit.

Ceded reinsurance arrangements do not relieve the Group 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

Summary of significant accounting policies (contnd.)

2012. The reporting dates of the subsidiaries and the Group are within three months of the Group's reporting date and all use consistent accounting policies.

(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 only in the Company's 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, 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 other comprehensive income/equity. 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount to 'share of profit/(loss) of an associate' in the income statement.

(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 interests

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

Summary of significant accounting policies (contnd.)

(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 reporting 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

Gains or losses on financial instruments held at fair value through profit or loss are recognised in profit or loss.

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 investments 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 The effective interest rate amortisation is included in investment income in the income statement. 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.

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 Group.

Summary of significant accounting policies (contnd.)

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 is 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 is 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. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. 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 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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively). Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(iii) Foreign operation financial statements

The functional currency of the foreign operations, African Life Financial Services Limited Zambia and Quantum Assets Zambia Limited, is Zambian Kwacha. As at the reporting date, the assets and liabilities of the associate and subsidiary are translated into the presentation currency of the Group at the rate of exchange ruling at the 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 other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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 its residual value over its estimated useful life 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

Summary of significant accounting policies (contnd.)

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 asset is derecognised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(ii) 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 Group and which have a probable benefit beyond one year, are recognised as an asset provided they meet the definition of developmet costs. Computer software development costs are recognised as intangible asset only when the Group 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 reporting date.

(iii) Business combinations and goodwill

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 embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance 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.

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 tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from

Summary of significant accounting policies (contnd.)

the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each 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 tax asset to be utilised. Unrecognised deferred 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 tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax is recognised in profit or loss, unless the underlying transaction was recorded directly in other comprehensive income or equity. In such an instance the deferred tax is recorded in other comprehensive income and equity as well.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(ii) Current income tax

Current taxation is charged on the net income for the year after taking into account income and expenditure, which is not subject to taxation, and capital allowances on fixed assets.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in the income statement. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the reporting date.

(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.

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.

Defined benefit contributions are recognised as expenses when incurred.

(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 Group has a present legal or constructive obligation to make such payments as a result of past events and;
- a reliable estimate of the obligation can be made.

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

(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 is divided into two, one for management staff and one for other staff. The objective of the scheme was to retain staff. The scheme will continue until the entire granted shares vest but there will not be any new allocations under the scheme. Transactions within the management scheme and the staff scheme are accounted for as equity settled.

In 2010 the Group introduced two additional schemes to replace the old scheme: The Share Option Scheme (SOS) and the Conditional Share Plan (CSP).

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

Summary of significant accounting policies (contnd.)

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 Group and Holding Company accounts for the awards as equity settled.

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 fair value of options at grant date is expensed over the vesting period. The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, 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 21. 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. Life insurance policy claims include a provision for incurred but not reported claims at year- end.

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 reinsurance are recognised when due.

Claims handling costs are accounted for separately.

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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. 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 unless another systematic basis is more representative of the time pattern of the group's benefit. Contingent rents are recognised as revenue in the period in which they are earned.

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. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Summary of significant accounting policies (contnd.)

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

The Group assesses its long-term reinsurance assets for impairment bi-annually. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed.

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 universal life product designed to provide insurance benefits such as life cover, disability and hospitalisation benefits under an umbrella product with an investment component. The product also allows for funeral cover for the main member as well as his/her family members. The value of the investment account is paid in the event of maturity or surrender. The investment account is credited with premiums received (net of expense charges, commission and the cost of risk benefits) and investment returns.
The policyholder liability for annuities includes a mismatch and re-investment reserve. Its purpose is two fold:

- to ensure that the Group is able to withstand any losses due to the mismatch of asset and liability cashflows

- 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 Group 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.

The value of policy liabilities at 31 December 2012 exceeds the minimum requirements in terms of the LTIA, SAP 104 and APN 110. The application of actuarial guidance, as set out in SAP 104 and APN 110 issued by the Actuarial Society, is described below in the context of the Group's major product classifications.

Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on current assumptions. Furthermore, the liability for life insurance comprises provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the company. Adjustments to the liabilities at each reporting date are recognised in the profit or loss. The liability is derecognised when the contract expires, is discharged or is cancelled.

Classification of contracts

A distinction is made between investment contracts (which fall within the scope of 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 Group accepts significant insurance risk by agreeing with the policyholder to pay significant additional benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will significantly exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Policy contracts not classified as insurance contracts are classified as investment contracts and comprise of the following categories:

- Investment contracts with DPF;
- Investment contracts with investment management services; and
- Other investment contracts.

An investment contract with DPF entitles the policyholder to receive benefits or bonuses in addition to guaranteed benefits. These additional benefits have the following features:

- The benefits constitute a significant portion of each policy's total benefits;
- The timing and amount of the benefits are at the discretion of the BIHL Group, which has to be exercised in a reasonable way; and
- The benefits are based on the investment performance of a specified pool of underlying assets.

All investment contracts that fall within the scope of IAS 39 (i.e. all investment contracts without DPF) are designated as at fair value through profit or loss.

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position, known as deposit accounting.

Fees charged and investment income received 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.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

Investment contracts expose the investor to financial risks.

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

Summary of significant accounting policies (contnd.)

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 24);
- General operational risks; and
- Long-term insurance risks;

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and 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 2012 and 31 December 2011

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 Group 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 can be utilised at least once every five years to increase the paid up stated capital of the Group.

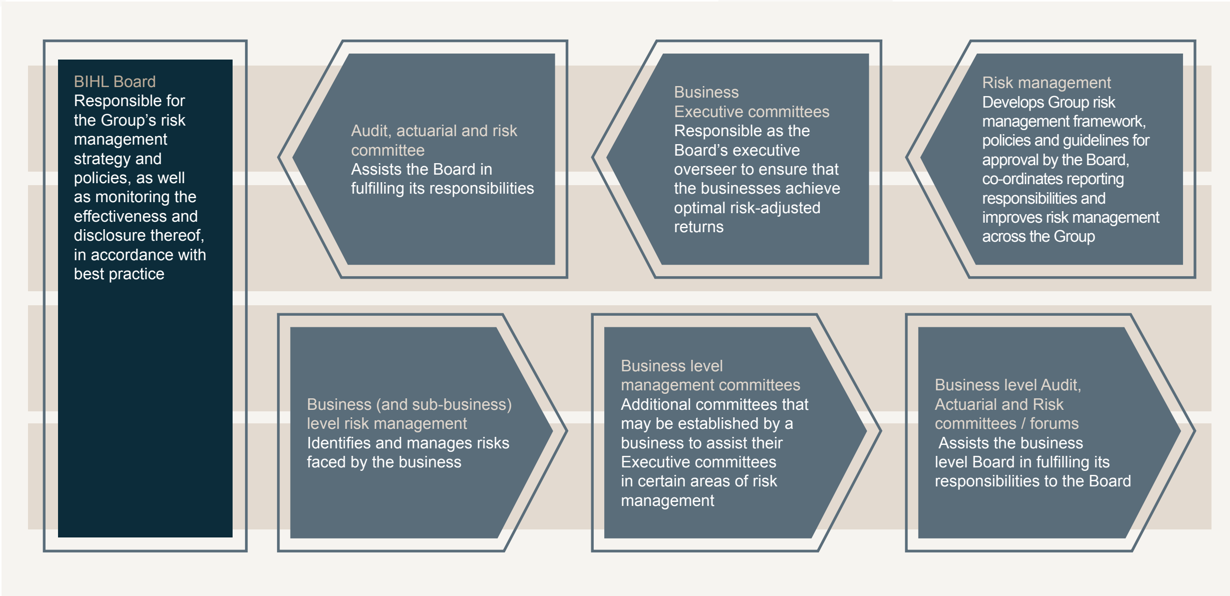
Capital includes shareholders equity and long-term debt. As at year end there was no long term debt.

	2012 P000	2011 P000
Shareholder's equity	1,944,715	1,690,795
Group required capital	158,200	128,769
Capital adequacy requirement (CAR) Cover (times)	12.29	13.13

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 90-119 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.



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

Summary of significant accounting policies (contnd.)

Group risk policies and guidelines

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

- The BIHL Group Enterprise Risk Management (ERM) Policy;
- Group Risk Escalation Policy;
- Group Business Continuity Management Policy;

These policies were developed by Group Risk Management and have to be implemented by all Group businesses. The maturity of the implementation does however vary from business to business due to different cost/benefit scenarios, complexity of risks and the degree of risk integration. At the quarterly Group Risk Forum meetings, risk management reports by each business are tabled that must also indicate the extent of compliance with the ERM Policy.

BIHL Group Enterprise Risk Management Policy

The Group ERM policy includes the following components:

- The broad objectives and philosophy of risk management in the Group;
- The roles and responsibilities of the various functionaries in the Group tasked with risk management; and
- The Group's minimum standards for implementation of risk management in the businesses.

BIHL Group Risk Escalation policy

The Risk Escalation policy defines the circumstances in which risk events and emerging risks should be escalated to the BIHL Group level. This includes quantifiable and unquantifiable measure.

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. The report of the independent auditors for the year under review is contained on page 124 of this annual report. The external auditors provide an independent assessment of certain systems of internal financial control which they may rely on to 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 consultants

The Group appoints external consultants to perform an annual review of the Group's risk management processes. The purpose of this review is to continuously identify potential areas for improved risk management in line with developing international best practice.

Information and technology risk

IT risks are managed across the Group in an integrated manner following the Enterprise Risk Management framework. Group IT is the custodian of the Group's IT Policy framework and ensures explicit focus on, and integration with the Group's IT Governance framework, which includes the governance of Information Security. The Head of Group IT facilitates the process of identifying emerging IT risks as well as unpacking significant IT risks with Group-wide strategic or operational impact. A quarterly IT Governance report, summarising the Group-wide situation is also delivered to the Risk and Compliance committee.

Going concern / business continuity risk

The Board regularly considers and records the facts and assumptions on which it relies to conclude that BIHL will continue as a going concern. Reflecting on the year under review, the Directors considered an opinion that adequate resources exist to continue business and that BIHL will remain a going concern in the foreseeable future. The Board's statement to this effect is also contained in the 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,

Summary of significant accounting policies (contnd.)

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 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.

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

	Dec 2012	Dec 2011
The mean duration of non-participating annuity liabilities is:	7.96 yrs	7.53 yrs
The mean duration for the supporting assets is:	7.23 yrs	7.64 yrs

The loss from a 1% parallel fall in interest rates is approximately P3.6 million (2011: P8.9 million)

Summary of significant accounting policies (contnd.)

iv) The table below indicates the impact of changes in assumptions

Policy liabilities in respect of Insurance contracts

2012

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	1,841,448	1,852,531	1,841,448	1,840,147	1,848,082	1,836,759
Annuity Business	3,441,985	3,438,984	3,444,451	3,445,697	3,441,985	3,495,482
Group Life Business	299,598	299,598	300,497	299,733	299,598	280,124
Total	**5,583,031**	**5,591,113**	**5,586,396**	**5,585,577**	**5,589,665**	**5,612,365**

2011

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	1,643,021	1,628,312	1,634,859	1,628,870	1,633,328	1,636,444
Annuity Business	2,677,690	2,818,343	2,677,939	2,681,804	2,677,690	2,710,908
Group Life Business	252,901	252,901	255,430	253,281	252,901	269,340
Total	**4,573,612**	**4,699,556**	**4,568,228**	**4,563,955**	**4,563,919**	**4,616,692**

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

2012	Effect on VIF after tax P'million
Base Assumption	708.5
Increase risk discount rate by 1,0% to 13.5%	677.1
Decrease risk discount rate by 1,0% to 11.5%	738.6
Investment return (and inflation) decreased by 1,0%, coupled with a 1,0% decrease in risk discount rate to 11.5%, and with bonus rates changing commensurately	735.0
Maintenance unit expenses (excluding investment expenses) decrease by 10%	714.9
Discontinuance rates decrease by 10%	734.5
Mortality and morbidity decreased by 5% for assurances, coupled with a 5% decrease in mortality for annuities	715.7
Equity and property assets fall by 10%	705.2

2011	Effect on VIF after tax P'million
Base Assumption	642.6
Increase risk discount rate by 1,0% to 14%	619.4
Decrease risk discount rate by 1,0% to 12%	667.9
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	670.1
Maintenance unit expenses (excluding investment expenses) decrease by 10%	650.2
Discontinuance rates decrease by 10%	670.3
Mortality and morbidity decreased by 5% for assurances, coupled with a 5% decrease in mortality for annuities	654.1
Equity assets fall by 10%	643.1

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 12.29 times (31 December 2011: 13.13 times).

Concentration of insurance risk

Long-term insurance risks do not vary significantly in relation to the location of the risk insured. Concentration by amounts insured could however increase the relative portfolio risk. The tables below provide analyses of the concentration of insured benefits per individual life insured (excluding annuity payments) as well as per annuity payable per annum per life assured. The figures below represent the benefits payable on the occurrence of the insurance event and not the liability held in the balance sheet in relation to the insured benefit.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

Summary of significant accounting policies (contnd.)

Benefits insured per individual life

			Before reinsurance		After reinsurance	
	2012	2011	2012	2011	2012	2011
	Number of lives	Number of lives	P'000	P'000	P'000	P'000
0 - 500	634,020	640,488	7,711,280	6,823,300	7,528,126	6,662,925
500 - 1 000	589	427	401,749	293,427	61,100	43,900
1 000 - 5 000	534	270	746,477	377,282	53,400	30,905
5 000 - 8 000	3	3	19,197	20,274	300	300
>8 000	3	3	33,330	33,358	300	300
	635,149	**641,191**	**8,912,033**	**7,547,641**	**7,643,226**	**6,738,330**

Non-participating annuity payable per annum per life insured

	2012	2011	2012	2011
P'000	Number of lives	Number of lives	P'000	P'000
0-20	2,245	2,165	21,632	22,089
20-40	1,240	1,069	36,645	34,674
40-60	913	829	45,975	41,431
60-80	631	508	44,546	35,874
80-100	511	389	48,273	35,029
>100	723	555	105,022	81,872

Annuity business is not reinsured.

Fair values

The carrying amounts and fair values of financial assets and financial liabilities are the same because financial assets and liabilities are either designated at fair value through profit or loss or have short term duration such that their carrying amounts approximate fair value.

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 2012 and 2011 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 2012, 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 Quantum Assets 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.

1 Segmental analysis (contnd.)

	Life Business		Asset Management	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Segment information by products and services				
Premium revenue	1,908,040	1,743,826	-	-
Fee revenue				
- Internal	-	-	3,856	-
- External	-	-	70,880	112,095
Investment income	432,333	302,540	214,263	457,630
Profit on sale of subsidiary	-	-	6,075	33,785
Fair value gains and losses	246,399	156,698	203,622	45,031
Total net income	2,586,772	2,203,064	498,696	648,541
Profit for the year before tax	289,316	315,859	83,147	97,008
Depreciation	3,228	3,761	380	725
Amortisation	5,308	1,836	-	-
Share-based expense	320	6,405	-	-
Income tax expense	64,217	32,649	25,773	11,041
Selling expenses	216,884	218,607	-	-
Net Insurance benefits and claims	888,741	907,459	-	-
Change in policyholder liabilities under insurance contracts	1,026,885	627,424	-	-
Change in liabilities under investment contracts	-	-	383,646	400,986
Total Assets	7,078,796	5,899,616	10,347,110	9,418,825
Total Liabilities	5,938,719	4,855,559	9,952,787	9,066,424
Capital expenditure	4,028	17,476	481	685
Associates and joint venture				
Share of profit of associates	-	-	22,864	1,898
investment in associates	-	-	208,595	72,622

Other		Inter Group Transactions		Consolidated Total	
Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
41,545	23,220	-	-	1,949,585	1,767,046
-	-	(3,856)	-	-	-
3,820	2,894	-	(4,045)	74,700	110,944
165,274	256,514	(182,955)	(267,107)	628,915	749,578
-	-	-	-	6,075	33,785
-	-	2,896	(67,406)	452,917	134,322
210,639	282,628	(183,915)	(338,558)	3,112,192	2,795,675
125,501	192,857	(12,633)	(77,311)	485,331	528,413
784	315	-	-	4,392	4,801
1,115	-	-	-	6,423	1,836
772	843	2,030	4,061	3,122	11,309
12,751	33,275	(11,805)	(19,882)	90,936	57,083
2,281	1,080	-	-	219,165	219,687
15,435	-	-	-	904,176	907,459
-	-	-	-	1,026,885	627,424
-	-	-	-	383,646	400,986
1,364,167	1,338,274	(3,373,385)	(3,928,310)	15,416,868	12,728,405
693,171	783,076	(3,146,421)	(3,703,502)	13,438,256	11,001,560
13,701	3,346	-	-	18,210	21,579
173,619	131,974	-	-	196,482	133,872
1,060,112	920,960	-	-	1,268,707	993,583

Annual financial statements

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
2012						
Cost						
At 1 January 2012	19,217	20,992	5,460	12,743	161	58,573
Additions	1,444	1,006	179	1,892	-	4,521
Disposals	-	(1,818)	-	-	-	(1,818)
At 31 December 2012	20,661	20,180	5,639	14,635	161	61,276
Accumulated depreciation						
At 1 January 2012	15,462	13,313	4,874	10,391	1,972	46,012
Current year charge	1,582	1,293	224	1,293	-	4,392
Disposals	(9)	(30)	-	-	-	(39)
At 31 December 2012	17,035	14,576	5,098	11,684	1,972	50,365
Carrying amount						
At 1 January 2012	3,755	7,679	586	2,352	(1,811)	12,561
At 31 December 2012	3,626	5,604	541	2,951	(1,811)	10,911
2011						
Cost						
At 1 January 2011	18,005	19,835	5,303	10,157	3,791	57,091
Additions	1,237	2,927	157	2,586	-	6,907
Foreign currency translation differences	(25)	(1,770)	-	-	(3,630)	(5,425)
At 31 December 2011	19,217	20,992	5,460	12,743	161	58,573
Accumulated depreciation						
At 1 January 2011	14,029	11,236	4,711	9,289	1,972	41,237
Current year charge	1,458	2,077	163	1,102	-	4,800
Disposals	(25)	-	-	-	-	(25)
At 31 December 2011	15,462	13,313	4,874	10,391	1,972	46,012
Carrying amount						
At 1 January 2011	3,976	8,599	592	868	1,819	15,854
At 31 December 2011	3,755	7,679	586	2,352	(1,811)	12,561

2. Property and equipment (contnd.)

Company

	Computer equipment P'000	Furniture and fittings P'000	Motor vehicles P'000	Leasehold improvements P'000	Total P'000
2012					
Cost					
At January 2012	-	1,052	-	66	1,118
Additions	600	451	179	90	1,320
Disposals	-	-	-	-	-
At 31 December 2012	600	1,503	179	156	2,438
Accumulated depreciation					
At 1 January 2012	-	-	-	-	-
Current year charge	125	206	33	10	374
At 31 December 2012	125	206	33	10	374
Carrying amount					
At 1 January 2012	-	1,052	-	66	1,118
At 31 December 2012	475	1,297	146	146	2,064

	Furniture and fittings P'000	Leasehold improvements P'000	Total P'000
2011			
Cost			
At 1 January 2011	881	-	881
Additions	1,052	66	1,118
Disposals	(881)	-	(881)
At 31 December 2011	1,052	66	1,118
Accumulated depreciation			
At 1 January 2011	-	-	-
Current year charge	-	-	-
At 31 December 2011	-	-	-
Carrying amount			
At 1 January 2011	881	-	881
At 31 December 2011	1,052	66	1,118

3 Intangible assets

Group

	Goodwill P'000	Computer software P'000	Total P'000
2012			
Cost			
At 1 January 2012	114,923	47,702	162,625
Additions	-	13,689	13,689
Disposals	-	-	-
At 31 December 2012	114,923	61,391	176,314
Accumulated amortisation and impairment			
At 1 January 2012	-	15,890	15,890
Current year amortisation	-	6,423	6,423
At 31 December 2012	-	22,313	22,313
Carrying amount			
At 1 January 2012	114,923	31,812	146,735
At 31 December 2012	114,923	39,078	154,001
2011			
Cost			
At 1 January 2011	121,806	33,030	154,836
Additions	-	14,672	14,672
Disposals	(6,883)	-	(6,883)
At 31 December 2011	114,923	47,702	162,625
Accumulated amortisation and impairment			
At 1 January 2011	-	14,054	14,054
Current year amortisation	-	1,836	1,836
At 31 December 2011	-	15,890	15,890
Carrying amount			
At 1 January 2011	121,806	18,976	140,782
At 31 December 2011	114,923	31,812	146,735

3 Intangible assets (contnd.)

Company

	Goodwill P'000	Computer software P'000	Total P'000
2012			
Cost			
At 1 January 2012	-	-	-
Additions	-	7,481	7,481
Disposals	-	-	-
At 31 December 2012	-	7,481	7,481
Accumulated amortisation and impairment			
At 1 January 2012	-	-	-
Current year amortisation	-	893	893
At 31 December 2012	-	893	893
Carrying amount			
At 1 January 2012	-	-	-
At 31 December 2012	-	6,589	6,589

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

	2012 P'000	2011 P'000
Carrying amount of goodwill		
Asset management business	72,563	72,563
Non-Life insurance	42,360	42,360
Total	114,923	114,923

Management estimates that the recoverable amounts of the cash generating units (CGU's) exceed the carrying amounts. Management estimates include a new review of the performance of CGU's when compared to estimates applicable at the origional recognition of the goodwill. The performance of the CGU's have shown a positive trend on a year on year basis. Management is estimating that the business will keep on growing by about 8.5% in the forseeable future which is in line with industry average and the country's long term infation targets.

Asset management business

The recoverable amount of the asset management business units has been determined based on the value-in-use calculation using the cashflow projections on financial budgets approved by senior management covering a 10 year period and perpetual growth of 5% thereafter. A pre-tax Group specific risk adjusted discount rate of 19% (2011: 19%) is used. The projected cashflows beyond the 10 years have been extrapolated using a steady average growth rate of 5% (2011: 5%) not exceeding the long-term average growth rate for the market in which the business operate. The projected cashflows are determined by budgeted margins based on past performances and management expectations and market developments.

3 Intangible assets (contnd.)

	Dec 2012	Dec 2011
The key assumptions used for the impairment calculations are:		
Investment income/surplus return	6.8%	5.9%
Investment growth on AUM (after tax)	7.9%	7.2%
Net inflows as a % of AUM	1.0%	1.0%

4 Investments

Fair values

At 31 December 2012 and 31 December 2011, the carrying value of financial instruments reported in the financial statements approximate their value.

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Investments designated as fair value through profit or loss				
At the beginning of the year	9,756,100	9,694,490	-	-
Net movement	2,308,172	(277,771)	-	-
Revaluations	452,917	339,381	-	-
At the end of the year	12,517,189	9,756,100	-	-
4.1 Bonds, notes, policy loans and similar securities				
Designated as at fair value through profit or loss				
Bonds (Govt., public authority, listed and unlisted corporates)	5,475,367	4,499,728	-	-
Money market instruments	117,056	213,182	-	-
Policy loans and other loan advances (Note 4.4)	138,235	146,540	-	-
	5,730,658	4,859,450	-	-

The bonds are made up of both listed and unlisted bonds. Listed bonds have fixed interest rates which range from 7.25% to 12.00%. For unlisted bonds, interest rates are fixed, with coupon rates falling between 10.00% 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 3.2% for 2012 (2011: 3.5%). All money market instruments are of a short term nature, being exercisable within one year of year end.

4 Investments(contnd.)

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
4.2 Equity investments				
Listed in Botswana	1,046,888	1,209,630	-	-
Listed foreign markets	5,546,508	3,662,090	-	-
Unlisted	193,135	24,930	-	-
	6,786,531	4,896,650	-	-
Sectoral analysis for bonds, money market and equity instruments				
Consumer discretionary	303,102	351,970	-	-
Industrials	55,392	71,261	-	-
Financials	4,272,160	3,709,394	-	-
Energy	28,013	26,859	-	-
Education	63,923	59,846	-	-
Property	466,929	348,245	-	-
Tourism	113,443	71,372	-	-
Offshore foreign equities	5,546,508	3,662,090	-	-
Government	1,543,579	1,308,523	-	-
Other	124,140	146,540	-	-
	12,517,189	9,756,100	-	-

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 cashflows for the unlisted investments are detremined with reference to contractual rate of return and the timing of the cashflow.

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 risk premium per instrument.The risk premium is the extra risk attributable to an unlisted instrument due to the factors arising from it not being traded on the open market. The average risk premium for the unlisted bonds and notes held by the Group was determined as 110 basis points in current year (2011: 110 basis points) on the basis of the risk surrounding the operations of the Group. The risk premium has been used as a risk adjustment to the Government risk free rate.

4 Investments (contnd.)

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
4.3 Policy loans and other loan advances				
Opening balance	146,540	224,448	-	-
New loans	34,363	42,472	-	-
Interest charges	1,430	9,136	-	-
Repayments	(41,587)	(80,219)	-	-
Impairment	(2,511)	(911)	-	-
Induplum Interest	-	-	-	-
Fair value movement	-	(48,386)	-	-
	138,235	146,540	-	-
Loans secured against the company's insurance policies	124,139	139,785	-	-
Other loans	14,096	6,755	-	-

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 2012 was 21% (2011: 18%)

As at the year end, an amount of P2.5 million (2011:P911,000) was charged to the income statement as impairment. The fair value movement is the additional impairment on policy loans. 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. The loans will run until the policy value has been fully utilised.Therefore the loans do not have a standard repayment and are open ended.

Other loans

The loans are advances to Public Private Partnerships which are partnerships between private companies and the Government of Botswana for construction projects. The interest rate on the loans 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% (2011: 11%)

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

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
4.4 Investment property				
At beginning of the year	361,466	232,528	-	-
Purchases of investments	86,676	48,055	-	-
Revaluations	47,656	80,883	-	-
	495,798	361,466	-	-

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 2012 and 31 December 2011 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.

In calculating the market value of commercial properties the investment method being a discounted cashflow approach had been adapted whreupon the current contractual annual rentals is netted off against relevant expenses including normal repairs and maintanance,operating costs, management/collection commission fees, insurance and rates amongst others. The resulting net income is discounted at a market related discount rate to arrive at the market value. In respect of residential properties a capitalisation approach has been adopted whereby a capitalisation rate is derived from comparable evidence and used to arrive at the market values. The other approaches considered are the profit method for lodging establishments and depreciated replacement cost for the hospital although, the properties have locked in leasing arrangements which necessitated the adoption of investment method.The following primary inputs have been used.

	Dec 2012 P'000	Dec 2011 P'000
Inflation rate (%)	7.4%	9.2%

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.

Valuations and appraisals were carried out in accordance with the RICS Appraisal and Valuation Standards ("The Red Book"), by valuers who conform to its requirements , and with regard to relevant statutes or regulations and with reference to market evidence of transaction prices for similar properties.

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

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
4.5 Interest in associates / joint ventures and subsidiaries (subsidiaries at company level)				
Carrying amounts at beginning of the year	993,583	501,142	317,277	313,309
Share of results after tax	196,482	133,872	-	-
Dividend received	(35,965)	(10,832)	-	-
Adjustment on valuation of associate	-	(3,530)	-	-
Reclassification of subsidiary to associate due to loss of control	-	47,921	-	-
Additional investment in associates (subsidiaries at company level)	114,607	325,010	6,114	3,968
Carrying amount at the end of the year	1,268,707	993,583	323,391	317,277

Investment in associates at 31 December 2012 includes goodwill of P901,000 (2011:P901,000). There was no impairment loss during the year.

Acquisition of additional interest in Letshego Holdings Limited

The fair value of the listed associates (Letshego Holdings Limited and Funeral Services Group) was P1,028 million (2011:P826 million)

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

	Khumo Property Asset Mangnt	Gaborone Sun	Funeral Services Group
As at 31 December 2012			
Carrying amount (P'000)	2,203	16,665	34,395
Interest in issued share capital			
Shareholders' fund	50%	20%	28.65%
Share of earnings after tax for current year (P'000)	402	3,679	6,915
Distributions received	-		
Shareholders' fund (P'000)	-	(1,499)	(3,085)
Total assets and liabilities of associated company			
Non-current assets (P'000)	254	26,041	125,754
Current assets (P'000)	4,831	9,284	58,601
Non-current liabilities (P'000)	-	-	(7,420)
Current liabilities (P'000)	(1,836)	(81)	22,829
Total Revenue of associate company (P'000)	7,858	5,279	69,910
Profit attributable to shareholders (P'000)	1,033	(5,069)	13,035

	Khumo Property Asset Mangnt	Gaborone Sun	Funeral Services Group
As at 31 December 2011			
Carrying amount (P'000)	1,800	14,958	30,565
Interest in issued share capital			
Shareholders' fund	50%	20%	28.65%
Share of earnings after tax for current year (P'000)	(209)	1,201	5,505
Distributions received	-		
Shareholders' fund (P'000)	-	(9,663)	(1,169)
Total assets and liabilities of associated company			
Non-current assets (P'000)	1,140	22,362	121,789
Current assets (P'000)	2,522	8,646	34,967
Non-current liabilities (P'000)	(16)	-	(9,338)
Current liabilities (P'000)	(2,063)	(126)	(16,084)
Total Revenue of associate company (P'000)	955	886	45,009
Profit attributable to shareholders (P'000)	2,842	780	13,035

Plot 21	Bongwe	African Life	Healthcare Holdings	Fuene	Letshego	Total
2,362	6,631	55,776	17,575	107,378	1,025,722	1,268,707
33%	33%	49%	29.60%	24.85%	25.33%	-
205	373	7,858	5,275	5,072	166,703	196,482
-	-	-	-	-	(31,381)	(35,965)
40,853	183,769	5,513	29,923	480,439	62,224	954,770
11,793	27,602	29,947	41,838	23,423	3,138,263	3,345,582
(42,304)	(195,412)	(1,495)	(18,848)	39,337	-	(226,142)
(1,514)	(1,121)	(13,404)	(2,547)	4,954	(737,516)	(730,236)
2,273	5,391	37,775	2,925	52,363	869,809	1,053,583
621	1,130	12,409	2,156	20,412	531,184	576,911

Plot 21 Invest Services	Bongwe	African Life	Healthcare Holdings	Fuene	Letshego	Total
2,097	5,847	47,919	-	-	890,395	993,580
33%	33%	49%	-	-	25.51%	-
501	405	-	-	-	126,470	133,872
-	-	-	-	-	-	(10,832)
-						
47,341	285,569	-	-	-	62,224	540,425
11,560	41,006	14,268	-	-	3,138,263	3,251,232
(49,825)	(301,320)	(2,016)	-	-	-	(362,514)
(1,159)	(1,983)	(1,457)	-	-	(737,516)	(760,388)
4,682	7,216	(3,397)	-	-	869,809	925,160
1,184	1,536	922	-	-	531,184	551,482

4 Investments (contnd.)

4.6 Disposal of subsidiary

During the year Bifm disposed off 51% shareholding in Bifm Capital (Pty) Ltd. The fair value and carrying amounts of the indentifiable assets and lilibities of Bifm Capital (Pty) Ltd as at the date of disposal were :

	P'000
Carrying amount of assets	13,638
Carrying amount of liabilities	(8,267)
Net assets	5,371
Group's share of net assets	2,739
Fair value of consideration received	1,116
Balance of NCI at date of sale	7,698
Profit on disposal	6,075
Fair value of assets and liabilities disposed were as follows:	
Property and equipment	764
Trade and other recievables	7,060
Cash and cash equivalents	5,814
Deferred tax liabilities	(18)
Trade and other payables	(8,249)
	5,371
Group's share of net assets at fair value	2,739
Consideration	1,117
Effect on cashflow	
- Cash consideration received on disposal of subsidiary	1,117
- Cash disposed off in subsidiary	(5,814)
	(4,697)

4.6.1 Partial disposal of interest in a subsidiary

Background

The Pension Scheme Regulation (PSRA) (Amendment) Act No. 27 of 2006 at Section 17 (Part III A Regulation of Managers & Others) introduced a requirement that pension fund manager firms' equity be owned by Zambian Citizens with a minimum of 51% shares. Bifm disposed 21% shareholding in African Life Zambia in order to comply with this requirement. To achieve compliance,the shareholders agreed to separate the business activities of the company that are not supervised under the PSRA (non regulated activities) from those that are supervised under the PSRA and migrate non regulated assets to this new company (Quantum Assets Zambia Limited).

	P'000
a) Carrying amount of assets	83,844
Carrying amount of liabilities	(23,373)
Net assets	60,471
Less : Assets transferred to another entity (Quantum)	(55,696)
Adjusted net assets	4,775
Fair value of investment retained in the associate (49%)	40,943
Fair value of consideration received	17,547
	58,490
Net assets sold	(3,342)
Profit on disposal before other comprehensive income adjustments and goodwill	55,148
Less: Goodwill written off	(6,823)
Foreign currency translation differences in other comprehensive income	(14,540)
Profit on disposal	33,785
b) Fair value of assets and liabilities disposed were as follows:	
Property and equipment	1,878
Investments	47,206
Trade and other recievables	13,855
Cash and cash equivalents	15,005
Deferred tax liabilities	(661)
Trade and other payables	(16,812)
	60,471
Consideration	17,547

5 Trade and other receivables

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Outstanding premiums	80,876	92,542	-	-
Non-insurance contract amounts receivable	83,992	76,799	1,578	668
Due from reinsurers	20,212	22,358	-	-
- opening balance	22,358	20,744	-	-
- reinsurance recoveries received	(4,197)	(4,300)	-	-
- claim recoveries	2,051	5,914	-	-
	185,080	191,699	1,578	668

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	150,592	99,157	1,578	668
Past due but not impaired:	34,488	92,542	-	-
Less than 30 days	15,064	34,389	-	-
30 - 60 days	3,178	26,345	-	-
60 - 90 days	16,246	31,808	-	-
	185,080	191,699	1,578	668

The carrying values of trade and other receivables are reasonable approximations of their fair values.

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5 Trade and other receivables (contnd.)

Impairment movement

As at 31 December 2012 outstanding premiums with a nominal value of P114,481 (2011:P 7,078,206) were impaired and fully provided for. Movements in the provision for impairment of outstanding premiums were as follows:

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
At 1 January	10,460	3,382	-	-
Charge for the year	114	7,078	-	-
At 31 December	10,574	10,460	-	-

6 Stated Capital

Authorised shares (number)	281,070,652	281,070,652	281,070,652	281,070,652
Ordinary shares issued and fully paid				
281,070,652 ordinary shares at no par value	130,821	130,821	130,821	130,821

7 Non-distributable reserves

Foreign currency translation reserve				
Opening balance	34,660	4,009	-	-
Movement for the year	10,718	30,651	-	-
Balance at end of year	45,378	34,660	-	-
Consolidation reserve				
Opening balance	(96,368)	(107,017)	-	-
Transfer from retained earnings	4,405	10,649	-	-
Cost of shares disposed of	168	-	-	-
Balance at end of year	(91,795)	(96,368)	-	-
Number of shares held at 31 December:	9,720	9,874	-	-
	9,720	9,874	-	-
Market price per share (Pula)	10.35	9.76	-	-
Treasury shares				
Number of shares held at 31 December:				
Shareholders' fund 000s	656	886	-	-
Opening balance	(112,348)	(128,015)	-	-
Cost of treasury shares disposed of	11	-	-	-
Exercised employee shares	24,026	15,667	-	-
	(88,311)	(112,348)	-	-

7 Non-distributable reserves (contnd.)

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Share based payment reserve				
Opening balance	68,433	57,125	3,183	2,340
Transfer from surplus for the year	3,122	11,308	772	843
Prior year adjustments	5,245	-	-	-
	76,800	68,433	3,955	3,183
Statutory capital reserve				
Opening balance	573,560	494,168	9,762	9,762
Transfer from surplus for the year	66,831	79,392	-	-
Prior year adjustments	315	-	-	-
	640,706	573,560	9,762	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 can be utilised at a minimum of five years to increase the paid up stated capital of the respective subsidiary companies.

	Group		Company	
Solvency reserve				
Opening balance	954	-	-	-
Transfer from surplus for the year	-	954	-	-
Prior year adjustment	(8)	-	-	-
	946	954	-	-
Total non-distributable reserves	583,724	468,891	13,717	12,945

8 Policyholder Liabilities

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
8.1 Analysis of movement in policy liabilities under insurance contracts				
Income	2,521,195	2,140,424	-	-
Premium income	1,908,040	1,743,827	-	-
Investment return after tax	613,155	396,597	-	-
Outflow	(1,502,735)	(1,523,941)	-	-
Policy benefits	(888,741)	(907,459)	-	-
Retirement funds terminations	-	-	-	-
Fees, risk premiums and other payments to shareholders' fund	(613,994)	(616,482)	-	-
Net movement for the year	1,018,460	616,483	-	-
Balance at beginning of the year	4,573,612	3,957,129	-	-
Balance at end of the year	5,592,072	4,573,612	-	-

8 Policyholder Liabilities (contnd.)

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
8.2 Analysis of premium income				
Individual business	1,513,243	1,362,766	-	-
Recurring	768,552	773,314-	-	-
Single	744,691	589,452-	-	-
Employee benefits business	394,796	381,060-	-	
Recurring	92,763	94,053	-	-
Single	302,033	287,007	-	-
Non life insurance	41,545	23,220	-	-
Total premium income	1,949,584	1,767,046	-	-
8.3 Composition of policy liabilities under investment contracts				
Individual business				
Linked and market-related liabilities	7,374,142	6,013,433	-	-
Composition of policy liabilities under insurance contracts				
Individual business	5,292,475	4,320,711	-	-
Linked and market-related liabilities	1,736,332	1,526,745	-	-
Stable bonus fund	48,555	50,921	-	-
Reversionary bonus policies	51,363	47,968	-	-
Non-participating annuities	3,393,704	2,634,100	-	-
Other non-participating liabilities	62,521	60,977	-	-
Employee benefits business	299,597	252,901	-	
Other non-participating liabilities	299,597	252,901	-	-
Total policy liabilities	12,966,214	10,587,045	-	-

8.4 Maturity analysis of policy holder liabilities

P'000

2012	On demand	< 1 year	1-5 years	>5 years	open ended	Total
Maturity analysis of policy holder liabilities under investment contracts						
Linked and market-related liabilities	7,374,142	-	-	-	-	7,374,142
Maturity analysis of policy holder liabilities under insurance contracts						
Linked and market-related liabilities	-	99,030	569,210	1,068,096	-	1,736,336
Stable bonus	-	9,642	12,104	20,826	5,982	48,554
Reversionary bonus policies	-	7,240	22,578	21,545	-	51,363
Non-participating annuities	-	2,360	29,180	45,432	3,316,728	3,393,700
Participating annuities	-	-	-	-	48,284	48,284
Other non-participating liabilities	-	6	299,612	14,217	-	313,835
Total	7,374,142	118,278	932,684	1,170,116	3,370,994	12,966,214

8.4 Maturity analysis of policy holder liabilities (contnd.)

P'000

2011	On demand	< 1 year	1-5 years	>5 years	open ended	Total
Maturity analysis of policy holder liabilities under investment contracts						
Linked and market-related liabilities	6,013,433	-	-	-	-	6,013,433
Maturity analysis of policy holder liabilities under insurance contracts						
Linked and market-related liabilities	-	68,452	510,957	934,868	-	1,514,277
Stable bonus	-	7,836	13,707	22,698	6,680	50,921
Reversionary bonus policies	-	3,816	23,084	21,068	-	47,968
Non-participating annuities	-	2,367	28,880	48,202	2,554,652	2,634,101
Participating annuities	-	-	-	-	61,055	61,055
Other non-participating liabilities	-	4	252,926	12,360	-	265,290
Total	6,013,433	82,475	829,554	1,039,196	2,622,387	10,587,045

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
8.5 Policy liabilities include the following:				
HIV/Aids reserve	27,321	31,116	-	-
Asset mismatch reserve	26,469	31,000	-	-

Refer to the report of the Independent Actuary for the methods and assumptions used in determining liability valuations.

	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
8.6 Reconcilation of policyholder liabilities				
Insurance contracts				
Opening balance	4,573,612	3,957,129	-	-
Transfer from income statement	1,018,459	616,483	-	-
Other transfers	-	-	-	-
Closing balance	5,592,072	4,573,612	-	-
Financial Soundness Valuation (FSV)	5,270,243	4,293,054	-	-
Unearned premium reserve (UPR)	288,138	241,782	-	-
Annuity mismatch and re-investment reserve	26,469	31,000	-	-
Claims incurred but not yet reported (IBNR) reserve	7,223	7,776	-	-
Investment contracts				
Balance at the beginning of the year	6,013,433	6,354,273	-	-
Pension and investment contributions	454,836	285,806	-	-
Net investment return	1,331,854	96,782	-	-
Benefits paid and withdrawals	(425,981)	(723,428)	-	-
Balance at end of the year	7,374,142	6,013,433	-	-
Total policyholder liabilities	12,966,214	10,587,045	-	-
Off balance sheet segregated funds	8,789,154	5,002,008	-	-

Segregated funds are excluded from investments and liabilities under investment management contracts on the balance sheet.

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8 Policyholder Liabilities (contnd.)

	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
8.7 Reinsurance Assets				
Balance at the beginning of the year	17,467	28,409	-	-
Movement in reinsurer's share of insurance contract liabilities	(8,426)	(10,942)	-	-
Balance at end of the year	9,041	17,467	-	-
8.8 Movement in insurance contract liability				
Policyholder transfer from income statement	1,018,459	616,482	-	-
Long term reinsurance asset movement	8,426	10,942	-	-
Movement in the income statement	1,026,885	627,424	-	-

9 Non -controlling interests

	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
Balance at beginning of the year	36,050	31,588	-	-
Share of profit	3,477	8,357	-	-
Dividend payment	-	(3,588)	-	-
Currency translation difference	1,822	(2)	-	-
Diposal of minority	(7,698)	(305)	-	-
Balance at end of the year	33,651	36,050	-	-

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 2012 P'000	Deferred tax liability 2012 P'000	Income statement 2012 P'000	Deferred tax asset 2011 P'000	Deferred liability 2011 P'000	Income statement 2011 P'000
Balance at the beginning of the year	194	(12,726)	-	1,688	(19,050)	-
Charge to the income statement	-	(5,420)	(5,420)	(1,494)	(3,722)	(5,216)
Prior year adjustments	(4)	207	-	-	10,046	-
Balance at end of the year	190	(17,939)	-	194	(12,726)	-
Representing:						
Accelerated depreciation for tax purposes	-	(360)	3,584	1,338	1,887	2,368
Unrealised gains on shareholders' investments	-	18,342	1,879	(1,144)	20,684	2,848
Prior year adjustments	-	-	-	-	(10,046)	-
Deferred lease	-	(43)	(43)	-	-	-

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 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Trade payables				
Insurance claims payable	172,646	143,164	-	-
Premiums received in advance	76,040	74,253	-	-
Intermediary retention balance	45,286	46,460	-	-
Reassurance payable	16,134	3,375	-	-
Other payables				
Other accounts payable	134,583	116,822	33,988	21,046
	444,689	384,074	33,988	21,046

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 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 liabilities and have an average term of 90 days.

12 Premium revenue

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Individual life	1,513,244	1,362,766	-	-
Gross premium	1,519,183	1,367,006	-	-
- Recurring premium	774,492	777,554	-	-
- Single	744,691	589,452	-	-
Premium ceded to reinsurers	(5,939)	(4,240)	-	-
Group and employee benefits	394,796	381,060	-	-
Gross premium	409,685	391,827	-	-
- Recurring premium	92,763	94,053	-	-
- Single	316,922	297,774	-	-
Premium ceded to reinsurers	(14,889)	(10,767)	-	-
Non life insurance	41,545	23,220	-	-
	1,949,585	1,767,046	-	-

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13 Investment income

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
13.1 Shareholders' investment income				
(i) shareholder				
Interest income in financial assets at fair value through profit or loss	36,968	23,711	248	370
Rental income on investment properties	6,777	2,998	-	-
Other income	-	-	457	1,475
Dividends	34,862	7,903	157,400	229,021
Investment management fees	(3,856)	(4,045)	-	-
	74,751	30,567	158,105	230,866
Policyholders' investment income				
(i) policyholder insurance contracts				
Interest income in financial assets at fair value through profit or loss	292,199	244,420	-	-
Rental income on investment properties	9,183	10,356	-	-
Dividends	88,558	27,349	-	-
Investment management fees	(28,312)	(24,398)	-	-
	361,628	257,727	-	-
(ii) policyholder investment contracts				
Interest income in financial assets at fair value through profit or loss	96,033	177,523	-	-
Rental income on investment properties	72,630	71,086	-	-
Dividends	23,873	212,674	-	-
	192,536	461,283	-	-
Total Policyholder's investment income	554,164	719,010	-	-
Total Investment income	628,915	749,577	158,105	230,866
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 losses on investments	(3,324)	(4,438)	-	-
Foreign exchange gains/(losses)	(1,805)	23,514	-	-
Unrealised fair value surpluses on investments	12,513	21,822	-	-
Less: treasury share adjustment	2,896	16,100	-	-
	10,280	56,998	-	-
Policyholders' net gain from financial assets held at fair value through profit or loss				
(i) insurance contracts				
Realised fair value supluses/(losses) on investments	208,281	(76,011)	-	-
Foreign exchange gains	43,247	130,126	-	-
	251,528	54,115	-	-

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
13.2 Net (losses)gains from financial assets held at fair value through profit or loss (contnd.)				
(ii) investment contracts				
Unrealised fair value surpluses on investments	191,109	23,210	-	-
	191,109	23,210	-	-
Total Policyholder net gains from financial assets held at fair value through profit or loss	442,637	77,325	-	-
Total net gains from financial assets held at fair value through profit or loss	452,917	134,323	-	-

14 Net insurance benefits and claims

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Individual life				
Death and disability claims	113,979	108,510	-	-
Maturity claims	127,585	92,124	-	-
Policy surrenders	139,580	197,779	-	-
Annuities	301,135	248,592	-	-
Reinsurance share on death and disability claims	(1,241)	(2,785)	-	-
Total individual life	681,038	644,220	-	-
Group and employee benefits				
Death and disability claims	217,192	280,844	-	-
Reinsurance share on death and disability claims	(9,489)	(17,605)	-	-
Total group and employee benefits	207,703	263,239	-	-
Total net insurance claims and benefits under life insurance contracts	888,741	907,459	-	-
Short term insurance claims				
Gross claims	15,957	-	-	-
Reinsurance recovery	(522)	-	-	-
Total net insurance benefits and claims under non- life insurance contracts	15,435	-	-	-
Total net insurance benefits and claims	904,176	907,459	-	-

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15 Administration expenses include:

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Auditors' remuneration				
- audit fee current period	7,271	5,978	431	828
- other services	430	605	430	302
Depreciation on property, plant and equipment (note 2)	4,392	4,800	-	-
Amortisation of computer software (note 3)	6,423	1,836	-	-
Directors' fees				
- for services as directors	2,603	3,138	2,520	1,294
- for managerial services	1,850	3,065	1,850	3,065
- pension contribution	414	741	414	741
Operating lease rentals	15,423	14,339	1,434	-
Staff costs				
Salaries and wages for administration staff	102,704	110,329	17,379	6,236
Pension costs	10,113	8,086	2,321	1,664
Medical aid	1,973	1,973	340	-
Share based payment	3,122	11,308	772	843
CSP	625	-	772	843
SOS	2,176	-	-	-
- for managers	-	4,904	-	-
- for staff	321	6,404	-	-
Total staff costs	117,912	131,696	20,812	8,743
Average number of employees	369	360	33	6

16 Taxation

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Current tax	(85,616)	(73,408)	(638)	-
Deferred tax	(5,420)	(5,371)	-	-
Withholding tax on dividends	-	22,556	(11,805)	(34,353)
Capital gains tax	100	(860)	-	-
Tax charge	(90,936)	(57,083)	(12,443)	(34,353)

Tax reconciliation

The tax on income before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Profit before tax	485,331	528,413	128,749	208,952
Tax calculated at a tax rate of 22% (2011:22%)	106,773	116,253	28,325	45,969
Effect of changing tax rates	-	(2,083)	-	-
Expenses not deductible for tax	18,795	6,272	9,993	6,056
Different tax on offshore dividends	(5)	294	-	-
Income not subject to tax	(34,527)	(41,957)	(22,823)	(17,672)
Withholding tax on dividends	-	(22,556)	-	-
Effect of assessed losses	-	-	(3,052)	-
Capital gains tax	(100)	860	-	-
Tax charge	90,936	57,083	12,443	34,353

Additional company tax

The utilsation of ACT has fallen away as per the ammended tax legislation. The Group had additional Company Tax (ACT) available for set off against withholding tax on dividends of P46 million as at 30 June 2011

16.1 Tax Paid				
Opening balances	11,024	28,563	-	-
Charge for the year	85,516	51,711	12,443	34,353
Closing balance	10,155	(11,024)	(638)	-
Tax paid	106,695	69,250	11,805	34,353

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 2012 P'000	Dec 2011 P'000
Net profit attributable to ordinary equity holders of the parent for basic earnings and diluted earnings	390,918	462,973
Number of shares in issue	281,071	281,071
Staff share scheme and treasury shares	(12,960)	(15,259)
Weighted average number of shares used for calculating basic earnings per share	268,111	265,812
Weighted number of dilutive options	1,783	1,396
Weighted average number of shares used for calculating diluted earnings per share	269,894	267,208
Earnings per share (thebe)		
- basic	146	174
- diluted	145	173

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2012

18 Dividends per share paid during the period (net)

	Record date	P'000
Declared and paid during the year:		
Final dividend for the year to 31 December 2011: 41 thebe (2010: 41 thebe)	27-Apr-2012	115,239
Interim dividend for six months to 30 June 2012: 15 thebe (2011: 25 thebe)	7-Oct-2012	42,161
		157,400
Dividend proposed after year end not recognised in the financial statements:		
Final dividend for the year to 31 December 2012: 20 thebe (2011: 41 thebe)	19-Apr-2013	56,214
Dividend proposed for approval at AGM (Before withholding tax - not recognised as liability at 31 December)		56,214
Withholding tax on dividends		(4,216)
Dividend proposed for approval at AGM (After withholding tax - not recognised as liability at 31 December)		51,998

19 Related party disclosures

The financial statements include the financial statements of Botswana Insurance Holdings Limited, subsidiaries and associates as listed in the following table:

Principal subsidiaries	Country of incorporation	% of interest held Dec 2012	Dec 2011	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
Bifm Unit Trusts (Pty) Ltd	Botswana	100	100	Unit Trusts
Genebase Holdings (Pty) Ltd	Botswana	100	100	Dormant
Regetta Investments (Pty) Ltd	Botswana	100	100	Dormant
BIHL Legal Guard (Pty) Ltd	Botswana	100	100	Dormant
BIHL Insurance Company Limited	Botswana	100	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) Limited	Botswana	-	51	Corporate finance
Bifm Capital Investment Fund 1	Botswana	100	100	Corporate finance
Bifm Capital Investment Fund 2	Botswana	-	100	Corporate finance
Quantum Assets Zambia Limited	Zambia	70	70	Asset management
Bifm Projects (Pty) Limited	Botswana	100	100	Dormant
KYS Investments (Pty) Limited	Botswana	63	63	Holding company
Photon Private Equity Fund Managers (Pty) Limited:	Botswana	100	100	Dormant

19 Related party transactions

	Group Dec 2012 P'000	Group Dec 2011 P'000	Company Dec 2012 P'000	Company Dec 2011 P'000
(i)Transactions on insurance contracts (Expense)/Income				
Sanlam Limited (54% shareholder of BIHL)				
- Premium ceded to reinsurer	(3,758)	(4,048)	-	-
- Claim recoveries from reinsurer	3,080	2,786	-	-
- Recoveries and other	7,855	-	-	-
Letshego Holdings Limited (Associate company of a BIHL)				
Credit life income	100,326	199,071	-	-
Claims paid	(111,134)	(189,718)	-	-
(ii) Other transactions				
Funeral Services Group Limited (FSG) (Associate company of BIHL) Share of income	4,982	(807)	-	-
Dividends received- BLIL	-	-	129,400	149,278
- Bifm	-	-	28,000	67,187
- BLI Investments	-	-	-	8,466
- BIHL Insurance Company Limited	-	-	-	4,090
(b) Year end balances arising from transactions on insurance contracts.				
Net due from				
- Sanlam Limited	-	-	-	-

(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
- Botswana Life Insurance Limited (100% owned by BIHL)	-	-	(117,800)	(77,146)
- BIFM(100% owned by BIHL)	-	-	1,905	5,031
- BIHL Unit Trusts (100% owned by BIHL)	-	-	2,477	-
- Genebase Holdings (Pty) Limited (100% owned by BIHL)	-	-	-	192
- Employee share scheme	-	-	-	3
- BIHL Trust	-	-	(289)	-
- BIHL Insurance Company Limited (100% owned by BIHL)	-	-	7,092	2,233
- Sanlam (54% shareholder of BIHL)	(4,157)	(6,691)	-	-
	(4,157)	(6,691)	(106,615)	(69,687)

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

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19 Related party transactions (contnd.)

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 and are generally settled in 90 days. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: 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.

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
(f) Transactions with key management				
(i) Compensation				
- Short-term employee benefits	29,787	32,930	6,966	10,572
- Pension costs - defined contribution plans	811	811	208	88
- Share based payments	2,367	2,712	772	843
- Other long-term benefits	2,212	2,639	716	1,789
	35,177	39,092	8,662	13,292

Directors' shareholding	Opening balance	Purchases/ (Sales)	Closing balance
B Dambe-Groth	22,943	21,172	44,115
M Mpugwa	8,647	3,804	12,451
U Corea	15,000	-	15,000
C Chauhan	75,020	-	75,020
Total	121,610	24,976	146,586

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

2012	Months of service	Salary P'000	Bonus P'000	Other Long term benefits P'000	Total P'000
Name					
G Hassam	12	1,850	900	414	3,164
Total executive directors		1,850	900	414	3,164

2011					
Name					
RD Sikalesele- Vaka	3	475	1,779	741	2,995
G Hassam	1	150	-	-	150
		625	1,779	741	3,145

(ii) Long-term emoluments

Share purchase plans

2012	No. of options	No of grants - CSP	Strike price (Pula)	Exercised	Forfeited	Outstanding	Expiry date
Name							
G Hassam							
Granted 2010	87,492	34,664	10.48	-	-	122,156	2020
Granted 2011	-	22,009	-	-	-	22,009	2021
Granted 2012	-	113,904	-	-	-	113,904	2022
Total	87,492	170,577		-	-	258,069	

2011							
Name							
RD Sikalesele							
Granted 2009		318,020	8.00	-	(318,020)	-	2012
Granted 2010		313,538	10.10	-	(313,538)	-	2013
Total		631,558		-	(631,558)	-	-

All shares as disclosed above are granted and are exercisable until the expiry date as disclosed. Refer to note 21(b) for additional information on the scheme.

20 Commitments

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases				
Within one year	12,438	8,577	1,688	-
Within two to five years	21,805	20,724	3,216	-

The operating lease is for buildings that the Group is renting for business purposes.

21 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 8.4 million (2011: P 8.0 million) 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 in 2010. These are (iii) The Share Option Scheme and (iv) 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 years of 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 2012 is P20.6 million (31 December 2011: P 20.6 million). The expense recognised in the income statement is P 15,596 (2011: P2.3 million).

Movement during the year	Dec 2012 Number of options '000	Weighted average price Pula	Dec 2011 Number of options '000	Weighted average price Pula
Outstanding at the beginning of the year	2,558	10.23	4,720	16.86
Granted	-	-	-	-
Forfeited	(626)	16.90	-	-
Exercised	(508)	3.60	(2,162)	3.05
Outstanding at the end of year	1,425	9.66	2,558	10.23
Exercisable at 31 December	967	15.89	842	5.57

Price	Number of options outstanding
8.50	83,333
8.70	66,667
16.90	1,275,000
	1,425,001

The weighted average remaining contractual life for the shares outstanding as at 31 December 2012 is 7 years (2011: 8 years)

The weighted average fair value of options granted during the year was NIL as there were no grants during the year. (2011: PNIL).

The range of exercise prices for options outstanding at the end of the year was P8.50 - P16.90 (2011: P8.50-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 P42.1 million (2011: P42.1 million). The expense recognised in the income statement was P304,510 (2011: P6.4 million).

Movement during the year	Dec 2012 Number of options '000	Weighted average price Pula	Dec 2011 Number of options '000	Weighted average price Pula
Outstanding at the beginning of the year	2,864	9.85	4,089	5.29
Granted	-	-	-	-
Forfeited	(788)	8.70	-	-
Exercised	(1,473)	8.70	(1,225)	8.70
Outstanding at the end of year	603	11.00	2,864	9.85

The weighted average remaining contractual life for the shares outstanding as at 31 December 2012 is 7 years (2011: 8 years). The weighted average fair value of options granted during the year was NIL as there were no grants during the year. (2011: NIL).The exercise prices for options outstanding at the end of the year was P11.00 (2011: P11.00).

21 Employee benefits (contnd.)

(iii) The Share Option Scheme (SOS)

All employees are eligible to participate in the scheme based on superior performance.
BIHL grants the employees option to obtain shares in BIHL The share options vests after a period of three years of continuous service from the grant date. The employer companies will, however, remain responsible to fund the procurement and settlement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The 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 and Group accounts for the awards as equity settled.

After the share options have vested, employees are given a period of 10 years from the offer date to exercise their option. The amount carried in the share based reserve at 31 December 2012 is P2 million (31 December 2011: P1.4 million). The expense recognised in the income statement is P 624,999 (2011: 944,301).

	Dec 2012		Dec 2011	
	Number of options	Weighted average price	Number of options	Weighted average price
Movement during the year	'000	Pula	'000	Pula
Outstanding at the beginning of the year	1,562	10.77	901	10.25
Granted	-	-	812	11.25
Forfeited	(516)	10.25	(151)	10.25
Exercised	-	-	-	-
Outstanding at the end of year	1,046	10.77	1,562	10.77

There were NIL options granted during the year. (2011:P 811,586). The weighted average value of options granted during the year was P NIL(2011: P11.75)
The weighted average remaining contractual life for the shares outstanding as at 31 December 2012 is 9 years (2011: 10 years)
The range of exercise prices for options outstanding at the end of the year was P8.51 - P11.75. (2011:P8.51-P11.75)

(iv) 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.Employees must remain in service for a period of three consecutive years from the date of grant.Vesting is based on satisfactory performance of individulas as per their scorecards over the stated three years. BIHL grants the employees to obtain shares in BIHL. The employer companies will, however, remain responsible to fund the procurement and settlement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The subsidiaries account for the awards as cash settled while the Holding Company and Group accounts for the awards as equity settled.

The amount carried in the share based reserve at 31 December 2012 is P6.4 million (31 December 2011: P4.2 million). The expense recognised in the income statement is P2.2 million (2011: P1.6 million).

Movement during the year	Dec 2012 Number of options '000	Dec 2012 Weighted average price Pula	Dec 2011 Number of options '000	Dec 2011 Weighted average price Pula
Outstanding at the beginning of the year	564	9.92	1,048	9.10
Granted	852	10.26	208	11.33
Forfeited	(230)	9.10	(692)	9.10
Exercised	-	-	-	-
Outstanding at the end of year	1,186	10.32	564	9.92

The weighted average remaining contractual life for the shares outstanding as at 31 December 2012 is 9 years (2011: 10 years)
The number of Conditional shares granted during the year was 851,907 (2011:207,948).
The weighted average fair value of shares granted during the year was P10.26 (2011:P 11.33)

The exercise prices for options outstanding at the end of the year was P10.32 (2011: P 9.92).

	Dec 2012 P'000	Dec 2011 P'000
Dividend yield	N/A	8.26%
Volatility	N/A	27.86%
Risk free interest rate	N/A	8.47%
Spot price (thebe)	10.26	11.75
Weighted average share price (Pula)	10.26	2.47
% 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.

21 Employee benefits (contnd.)

Options pricing model (contnd.)

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.

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.

22 Cash generated from operations

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Profit before tax as per income statement	485,331	528,413	128,749	208,952
Non cash flow items	(689,193)	(620,176)	2,039	1,724
Profit on sale of subsidiary	(6,075)	(33,785)	-	-
Profit on sale of Property and Equipment	-	(1,336)	-	881
Depreciation	4,392	4,800	374	-
Amortisation	6,423	1,836	893	-
Unrealised fair value gains on shareholder assets	(10,280)	(48,863)	-	-
Net gains from financial assets held at fair value through profit or loss	(442,637)	(339,381)	-	-
Unrealised fair value gains on investment properties	(47,656)	(80,883)	-	-
Equity-accounted earnings	(196,482)	(133,872)	-	-
Share - based payments	3,122	11,308	772	843

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Items disclosed separately	(452,587)	(460,348)	(145,843)	(229,391)
Interest received	(329,167)	(425,096)	(248)	(370)
Dividends received	(123,420)	(35,252)	(145,595)	(229,021)
Working capital changes:	2,452,295	259,392	48,960	(13,948)
Net increase/(decrease) in trade and other receivables	6,619	(14,807)	(4,925)	(3,431)
Change in policyholder liabilities	2,379,167	275,645	-	-
Decrease in reinsurance assets	8,426	10,942	-	-
Net increase /(decrease) in trade and other payables	58,083	(12,388)	53,885	(10,517)
Cash generated from/(utilised in) operations	1,785,546	(292,719)	33,905	(32,663)

23 Cash and bank

	Group		Company	
	Dec 2012 P'000	Dec 2011 P'000	Dec 2012 P'000	Dec 2011 P'000
Cash and bank	116,593	104,772	19,755	12,323
Funds on deposit	643,946	1,143,828	-	-
Cash and cash equivalents	760,539	1,248,600	19,755	12,323

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% (2011: 5%). Funds on deposit have a maturity of three months or less.

The carrying amounts disclosed above reasonably approximate fair values at year end.

24 Risk management

Financial risks

The main categories of financial risks associated with the financial instruments held by the business's shareholders' fund are summarised in the following table:

Type of risk	Description
Financial risk	Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise the following:
Equity price risk:	the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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24 Risk management (contnd.)

Financial risks (contnd.)

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.
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.

Market risk

The Group is exposed to financial risk, credit risk and liquidity risk on shareholder financial instruments as well as as finanical instruments backing non-participating or not market linked insurance contract liabilities. For investment contracts, policyholder assets and liabilities will offset one another and therefore there is no exposure to market risk. Market risk arises from the uncertain movement in the fair value of financial instruments that stems principally from potential changes in sentiment towards the instrument, the variability of future earnings that is reflected in the current perceived value of the instrument and the fluctuations in interest rates and foreign currency exchange rates.

The shareholders' fund investments in equities and interest-bearing instruments are valued at fair value and are therefore susceptible to market fluctuations.

Comprehensive measures and limits are in place to control the exposure to market risk. Continuous monitoring takes place to ensure that appropriate assets are held in support of the life operations' long-term solvency capital and the business' investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

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 and Company's objective to minimise interest rate risk to a minimum.

Floating rate instruments expose the Group and Company to cash flow interest risk, whereas fixed interest rate instruments expose the Group and Company to fair value interest risk.

The Group's and Company's interest risk policy requires it to manage interest rate risk by maintaining 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 review the limits.

Sensitivity analysis to interest rate risk

The sensitivity analysis is based on Bank of Botswana 91 days Floating paper for Pula deposit and LIBOR for USD deposits.

The Group is exposed to interest rate risk through a change in interest income or expense based on floating rate instruments and through changes in fair value of financial instruments at fair value through profit and loss based on fixed rate instruments. The impact on equity is the post tax amount.

The purpose of this note is to enable the user to have a better understanding of the effect of interest rate movement on interest bearing instruments. Interest rate risk relates to variable rate financial instruments, call deposit accounts and floating rate fixed income securities. The following table sets out the carrying amounts of the Group's financial instruments that are exposed to interest rate risk.

24 Risk management (contnd.)

Sensitivity analysis to interest rate risk (contnd.)
Variable interest rates

Group	Change in variables	Value	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity
2012		P'000	P'000	P'000
BWP	0.5%	311,004	1,555	1,213
BWP	-0.5%	311,004	(1,555)	(1,213)
USD	0.5%	72,084	360	281
USD	-0.5%	72,084	(360)	(281)
2011				
BWP	0.5%	540,485	2,702	2,027
BWP	-0.5%	540,485	(2,702)	(2,027)
USD	0.5%	59,842	299	224
USD	-0.5%	59,842	(299)	(224)

Company	Change in variables	Value	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity
2012		P'000	P'000	P'000
BWP	0.5%	19,755	99	77
BWP	-0.5%	19,755	(99)	(77)
2011				
BWP	0.5%	12,323	62	46
BWP	-0.5%	12,323	(62)	(46)

Fair value sensitivities

Group	Change in variables	Value	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity
2012		P'000	P'000	P'000
BWP	0.5%	130,309	652	508
BWP	-0.5%	130,309	(652)	(508)
2011				
BWP	0.5%	550,842	2,754	2,066
BWP	-0.5%	550,842	(2,754)	(2,066)

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. The Group does not have a specific policy to manage foreign exchange risk. It does not make use of any derivative financial instruments to manage foreign exchange rate risk.

2012	United States Dollar P'000	Other Currencies P'000	Total P'000
Equity instruments	5,546,508	-	5,546,508
Money market instruments	223,404	-	223,404
Bonds	319,255	-	319,255
Foreign currency exposure	6,089,167	-	6,089,167
Average rate	7.50	-	-
Closing rate	7.78	-	-

2011	United States Dollar P'000	Other Currencies P'000	Total P'000
Equity investments	3,662,090	3,187	3,665,277
Money market instruments	6,876,343	-	6,876,343
Bonds	261,273		261,273
Foreign currency exposure	10,799,706	3,187	10,802,893
Average rate	P6.98	-	-
Closing rate	P7.52	-	-

Currency sensitivity

The following table demonstrates the sensitivity (for shareholder funds and assets backing non participating policies) to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

2012	Change in variables	Value P'000	Increase/ (decrease) on profit before tax P'000	Increase/ (decrease) on equity P'000
USD	5%	6,089,167	304,458	237,478
USD	-5%	6,089,167	(304,458)	(237,478)

24 Risk management (contnd.)

Currency sensitivity (contnd.)

2011	Change in variables	Value P'000	Increase/ (decrease) on profit before tax P'000	Increase/ (decrease) on equity P'000
USD	5%	10,799,706	539,985	404,989
USD	-5%	10,799,706	(539,985)	(404,989)

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. The property risk sensitivities is included in the equity price risk as the portfolio comprise of listed assets. The price risk movement on bonds is included in the interest rate risk note.

Price sensitivity analysis

The following table shows the effect of price changes on domestic market and foreign market equities. The sensitivity analysis uses the Domestic Company Index which is the principle stock index of the 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 shareholder financial instruments as well as as finanical instruments backing non-participating or not market linked insurance contract liabilities.

2012	Change in variables	Value P'000	Increase/ (decrease) on profit before tax P'000	Increase/ (decrease) on equity P'000
DCI	15%	2,452	368	287
DCI	-15%	2,452	(368)	(287)
MSCI	10%	7,094	709	553
MSCI	-10%	7,094	(709)	(553)

2011	Change in variables	Value P'000	Increase/ (decrease) on profit before tax P'000	Increase/ (decrease) on equity P'000
DCI	15%	2,072	104	78
DCI	-15%	2,072	(104)	(78)
MSCI	10%	4,068	203	153
MSCI	-10%	4,068	(203)	(153)

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.

The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews.

The credit risk in respect of customer balances, incurred on non payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.There is no concentration of risk with respect to customer balances as the company has a large number of varied customers.

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.

The policyholder and shareholder funds follow a specific investment mandates that have been agreed with asset managers. These mandates depict how much type of assets to hold in each portfolio based on their perceived risk and thereby reducing both concentration of specific assets and of currency. There is also a diversity in the different sectors of economy in which our funds are invested, see note 4. Investments in government bonds, money markets and corporate bonds are managed by BIFM the asset management subsidiary as per signed mandates.

24 Risk management (contnd.)

Credit risk (contnd.)

There is no concentration on Money markets, cash and bank, the risk is spread as the company invests with various banks in the country.

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.

The disclosures are based on both shareholder and policyholder assets

	Group	
	Dec 2012 P'000	Dec 2011 P'000
Long term Reinsurance assets	9,041	17,467
Bonds (Government, public authority, listed and unlisted corporates)	5,475,367	4,499,728
Money market instruments	117,056	213,182
Policy loans and other loan advances	138,235	146,540
Trade and other receivables	185,080	191,699
Cash, deposits and similar securities	760,539	1,248,600
Maximum credit risk exposure	6,685,318	6,317,216

	Company	
	Dec 2012 P'000	Dec 2011 P'000
Trade and other receivables	1,578	668
Related party balances	11,474	7,459
Cash, deposits and similar securities	19,755	12,323
Maximum credit risk exposure	32,807	20,450

Financial assets pledged as collateral

There are no financial assets that have been pledged as collateral for financial liabilities or contingent liabilities.

Credit quality of interest bearing financial assets

The table below shows the maximum exposure to credit risk for the components of the balance sheet. Generally most companies' financial instruments do not have offical credit ratings therefore majority of balances are not rated. Moody's Investors Service rated the outlook on Botswana's A2 Government bond ratings as in November 2012, this was in response to the continuous improvement in the government's fiscal position as the result of a faster than expected implementation of its fiscal consolidation plan.

2012	Foreign Currency equivalent	Botswana Pula	A2 rated	Not rated options	Total P'000
Government bonds	-	1,638,620	1,638,620	-	1,638,620
Corporate bonds and other	-	3,835,332	-	3,835,332	3,835,332
Money Markets	46,037	71,019	-	117,056	117,056
Policy loans	-	138,235	-	138,235	138,235
Trade and other receivables	-	185,080	-	185,080	185,080
Cash and bank balances	-	760,539	-	760,539	760,539
Total assets	46,037	6,628,825	1,638,620	5,036,242	6,674,862

2011	Foreign Currency equivalent	Botswana Pula	A2 rated	Not rated options	Total P'000
Government bonds	-	927,519	927,519	-	927,519
Corporate bonds and other	-	3,572,209	-	3,572,209	3,572,209
Money Markets	96,742	116,440	-	213,182	213,182
Policy loans	-	146,540	-	146,540	146,540
Trade and other receivables	-	191,699	-	191,699	191,699
Cash and bank balances	-	1,248,600	-	1,248,600	1,248,600
Total assets	96,742	6,203,007	927,519	5,372,230	6,299,749

None of the non rated assets are impaired as at 2012 and 2011 financial years.Corporate bonds and other are held by reputable financial institutions and parastatals. An annual idependent evaluation is performed on the financial strengths of the corporates to asses the credit risk on these bonds. Continuous monitoring is also performed. Money market investments are with reputable local banks and reputable foreign fund managers with good financial wealth. Policy loans are secured by the policy investment value. Related party balances are not impaired since the receivable is within the same group. Trade and other receivables are on 30 day terms (refer note 5).

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 do not have collateral as these are deemed low risk and recoverable.

24 Risk management (contnd.)

Credit risk (contnd.)

	2012 Collateral held P'000	2012 Credit exposure P'000	2011 Collateral held P'000	2011 Credit exposure P'000
Unlisted bonds				
Botswana Building Society	-	11,758	10,000	12,157
Botswana Building Society	-	-	150,000	155,580
Botswana Development Corporation	-	-	15,000	-
ABC Holdings, RDC Properties	-	351,011	285,000	331,773
Botho Park	123,000	63,924	83,000	59,509
CA Sales & Disptribution	60,000	73,573	60,000	72,061
Botswana Savings Bank	-	61,342	50,000	59,564
CHOPPIES	35,000	42,117	35,000	42,233
RDC properties	-	50,573	40,000	45,607
Three Partners Resort	160,000	70,606	60,000	61,340
Stanbic Bank of Botswana	-	454,108	300,000	366,731
First National Bank of Botswana	-	190,044	60,525	63,619
Lonrho Hotels Botswana	-	33,721	-	-
Real People Investment Holdings	-	111,828	-	-
Allied Investments	100,000	84,665	-	-
Prime Time holdings	26,250	22,486	-	-
TOTAL	504,250	1,621,756	1,148,525	1,270,174

when needed and performs an impairment valuation when applicable. Government 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 an Investment Committee that meet periodically to review the matching of assets and liabilities and other investment decisions; the Group is continually looking for investments that match its liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of debt facilities from various financiers.

The maturity analysis of policyholder liabilities are based on expected maturities as modelled by the actuaries. The investment contracts are due on demand. Asset maturities have been disclosed on the basis of contractual maturities.The disclosures are based on both shareholder and policyholder assets

Group

2012

	< 1 year P'000	1-5 years P'000	> 5years P'000	Open ended P'000	Total P'000
Financial Assets:					
Long term Reinsurance assets	9,041	-	-	-	9,041
Bonds (Government, public authority, listed & unlisted corporates)	449,281	2,788,010	2,238,076	-	5,475,367
Money market instruments	117,056	-	-	-	117,056
Equity investments	-	-	-	6,786,531	6,786,531
Policy loans and other loan advances	138,235	-	-	-	138,235
Related party balances	-	-	-	-	-
Trade and other receivables	185,080	-	-	-	185,080
Cash, deposits and similar securities	760,539	-	-	-	760,539
	1,659,232	2,788,010	2,238,076	6,786,531	13,471,849
Financial Liabilities:					
Policy holders liabilities					
-Insurance contracts	118,279	932,684	1,170,116	3,370,993	5,592,072
-Investment contracts	-	-	-	7,374,142	7,374,142
Related party balances	4,157	-	-	-	4,157
Trade and other payables	444,689	-	-	-	444,689
	567,125	932,684	1,170,116	10,745,135	13,415,060

2011

	< 1 year P'000	1-5 years P'000	> 5years P'000	Open ended P'000	Total P'000
Financial Assets:					
Long term Reinsurance assets	17,467	-	-	-	17,467
Bonds (Government, public authority, listed & unlisted corporates)	254,096	530,762	4,228,413	-	5,013,271
Money market instruments	213,182	-	-	-	213,182
Equity investments	-	-	-	4,896,650	4,896,650
Policy loans and other loan advances	146,540	-	-	-	146,540
Related party balances	-	-	-	-	-
Trade and other receivables	191,699	-	-	-	191,699
Cash, deposits and similar securities	1,248,600	-	-	-	1,248,600
	2,071,584	530,762	4,228,413	4,896,650	11,727,409
Financial Liabilities:					
Policy holders liabilities					
-Insurance contracts	82,475	829,554	1,039,196	2,622,387	4,573,612
-Investment contracts	-	-	-	6,013,433	6,013,433
Related party balances	6,691	-	-	-	6,691
Trade and other payables	384,074	-	-	-	384,074
	473,240	829,554	1,039,196	8,635,820	10,977,810

24 Risk management (contnd.)

Liquidity risk (contnd.)

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 based on policy contracts. The open ended contracts are those policies that are linked to an event occuring and are not time bound.

Company 2012	< 1 year P'000	1-5 years P'000	> 5years P'000	Open ended P'000	Total P'000
Financial Assets:					
Trade and other receivables	1,578	-	-	-	1,578
Related party balances	11,474	-	-	-	11,474
Cash, deposits and similar securities	19,755	-	-	-	19,755
	32,807	-	-	-	32,807
Financial Liabilities:					
Financial Liabilities:					
Trade and other payables	33,988	-	-	-	33,988
Related party balances	118,089				118,089
	152,077	-	-	-	152,077

2011	< 1 year P'000	1-5 years P'000	> 5years P'000	Open ended P'000	Total P'000
Financial Assets:					
Trade and other receivables	668	-	-	-	668
Related party balances	7,459	-	-	-	7,459
Cash, deposits and similar securities	12,323	-	-	-	12,323
	20,450	-	-	-	20,450
Financial Liabilities:					
Trade and other payables	21,046	-	-	-	21,046
Related party balances	77,146	-	-	-	77,146
	98,192	-	-	-	98,192

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 2012:

2012	Notes	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total fair value P'000
Financial assets designated at fair value through profit or loss:					
Bonds (Government, public authority, listed & unlisted corporates)		486,700	4,987,252	-	5,473,952
Money market instruments		117,056	-	-	117,056
Equity investments		6,593,397	193,135	-	6,786,531
Policy loans and other loan advances		-	138,235	-	138,235
		7,197,153	5,318,622	-	12,515,775
Financial Liabilities:					
Investment contract liabilities		-	7,374,142	-	7,374,142
		-	7,374,142	-	7,374,142

2011	Notes	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total fair value P'000
Financial assets designated at fair value through profit or loss:					
Bonds (Government, public authority, listed & unlisted corporates)		538,850	3,960,878	-	4,499,728
Money market instruments		213,182	-	-	213,182
Equity investments		4,871,720	24,930	-	4,896,650
Policy loans and other loan advances		-	146,540	-	146,540
		5,623,752	4,132,348	-	9,756,100
Financial Liabilities:					
Investment contract liabilities		-	6,013,433	-	6,013,433
		-	6,013,433	-	6,013,433

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 techniques to maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

24 Risk management (contnd.)

Liquidity risk (contnd.)

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 on page 207.

	Dec 2012		Dec 2011	
	Assets	Policy liabilities price	Assets	Policy liabilities price
	P'000	P'000	P'000	P'000
Non participating annuities and supporting assets	3,486	3,442	2,629	2,629

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 lowest possible risk. Bottom-up stock-picking and fundamental stock analysis coupled with a value-style bias, are used for portfolio construction.
Fixed Income – The approach used for long dated bonds and short-dated money-market instruments differs:

(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.

24 Risk management (contnd.)

Investment Policy (contnd.)

(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.

25 Categories of financial assets and financial liabilities

The table below summarises categories of financial assets and financial liabilities held by the Group

Group 2012	Financial assets held at fair value through profit or loss P'000	Loans & receivables P'000	Financial liabilities at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
Financial assets					
Bonds (Government, public authority, listed and unlisted corporates)	5,475,367	-	-	-	5,475,367
Money market instruments	117,056	-	-	-	117,056
Equity investments	6,786,531	-	-	-	6,786,531
Policy loans and other loan advances	138,235	-	-	-	138,235
Trade and other receivables	-	185,080	-	-	185,080
Cash, deposits and similar securities	-	760,539	-	-	760,539
Total financial assets	12,517,189	945,619	-	-	13,462,808
Financial liabilities					
Long term policyholder liability - insurance contracts	-	-	5,592,072	-	5,592,072
Long term policyholder liability - investment contracts	-	-	7,374,142	-	7,374,142
Related party balances	-	-	-	4,157	4,157
Trade and other payables	-	-	-	444,689	444,689
Total financial liabilities	-	-	12,966,214	448,846	13,415,060

Group 2011	Financial assets held at fair value through profit or loss P'000	Loans & receivables P'000	Financial liabilities at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
Financial assets					
Bonds (Government, public authority, listed and unlisted corporates)	4,499,728	-	-	-	4,499,728
Money market instruments	213,182	-	-	-	213,182
Equity investments	4,896,650	-	-	-	4,896,650
Policy loans and other loan advances	146,540	-	-	-	146,540
Trade and other receivables	-	191,699	-	-	191,699
Related party balances	-	-	-	-	-
Cash, deposits and similar securities	-	1,248,600	-	-	1,248,600
Total financial assets	9,756,100	1,440,299	-	-	11,196,399
Financial liabilities					
Long term policyholder liability - insurance contracts	-	-	4,573,612	-	4,573,612
Long term policyholder liability - investment contracts	-	-	6,013,433	-	6,013,433
Related party payables	-	-	-	6,691	6,691
Trade and other payables	-	-	-	384,074	384,074
Total financial liabilities	-	-	10,587,045	390,765	10,977,810

Company 2012	Financial assets held at fair value through profit or loss P'000	Loans & receivables P'000	Financial liabilities at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
Financial assets					
Financial assets					
Trade and other receivables	-	1,578	-	-	1,578
Related party balances	-	11,474	-	-	11,474
Cash, deposits and similar securities	-	19,755	-	-	19,755
Total financial assets	-	32,807	-	-	32,807
Financial liabilities					
Trade and other payables	-	-	-	33,988	33,988
Related party payables	-	-	-	118,089	118,089
Total financial liabilities	-	-	-	152,077	152,077

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25 Categories of financial assets and financial liabilities (contnd.)

Company

2011	Financial assets held at fair value through profit or loss P'000	Loans & receivables P'000	Financial liabilities at fair value through profit or loss P'000	Financial liabilities measured at amortised cost P'000	Total P'000
Financial assets					
Trade and other receivables	-	668	-	-	668
Related party balances	-	7,459	-	-	7,459
Cash, deposits and similar securities	-	12,323	-	-	12,323
Total financial assets	-	20,450	-	-	20,450
Financial liabilities					
Trade and other payables	-	-	-	21,046	21,046
Related party payables	-	-	-	77,146	77,146
Total financial liabilities	-	-	-	98,192	98,192

Interest income on loan and recievables was P 1.4 million (2011: P 9.1 million)

26 Contingent Liabilities

In the ordinary course of business, the entity is a defendant in a litigation case involving its current and former agents who are claiming certain employee related benefits. As at the date of the approval of the financial statements, it was not possible to determine the outcome of the case or quantify the likely effect on the financial statements.

NOTES

NOTICE OF ANNUAL GENERAL MEETING

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 2012 together with the reports of the statutory actuary and auditors.

3 Ordinary Resolution 2:
To approve the dividends declared by the directors on 16 August 2012 and 01 March 2013.

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

Mr. Mahube Mpugwa
Mr. Gaffar Hassam
Mr. Mpho Seboni

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.

Mr. Robert Dommisse
Mr. Themba Gamedze
Mr. Andre Roux

6 Ordinary Resolution 5:
To approve the remuneration of the chairman and non-executive directors for the year ended 31 December 2012.

7 Ordinary Resolution 6:
To approve the remuneration of the auditors for the year ended 31 December 2012.

8 Ordinary Resolution 7:
To appoint Ernst & Young as auditors for the ensuing year.

9 Any other business

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

Topiwa Chilume
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.

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, 27 June 2013 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 27 June 2013, 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 2012			
2	Ordinary resolution number 2 - to approve the dividends declared by the directors on 16 August 2012 and 01 March 2013			
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 Mr. Mahube Mpugwa Mr. Gaffar Hassam Mr. Mpho Seboni			
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 Mr. Robert Dommisse Mr. Themba Gamedze Mr. Andre Roux			
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 2012			
7	Ordinary resolution number 7 - to appoint auditors for the coming year to 31 December 2013			

Signed at ____________________ on the ____________________ day of 2013 ____________________

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 year ended 31 December 2012, 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 2012 results	06 March 2013
Annual report sent on or about	29 May 2013
Annual General Meeting	27 June 2013
Interim results published	August 2013
Dividends	
2012 Final dividend payment	26 April 2013

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, Fairgrounds Financial Centre Plot 50374, Off Machel Drive or PO Box 336, Gaborone Botswana, or faxed +267 3973 657 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.

NOTES

ADMINISTRATION

Botswana Insurance Holdings Limited
Incorporated in Botswana
Company Registration number 90/1818

Registered Office
Plot 50374
Fairgrounds Financial Centre
P O Box 336
Gaborone
Tel: 3707 400; Fax: 3973 705

Transfer Secretaries
PricewaterhouseCoopers (Pty) Limited
Plot 50371
Fairgrounds Office Park
PO Box 294
Gaborone

Auditors
Ernst & Young
2nd Floor Letshego Place
Khama Crescent
PO Box 41015
Gaborone

Company Secretary
Topiwa Chilume

Statutory Actuary
Giles T. Waugh

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

Botswana Insurance Fund Management Limited
Block A: Fairgrounds Office Park
Private Bag BR 185
Gaborone
Tel: 3951 564; Fax: 3900 358
www.bifm.co.bw

Botswana Life Insurance Limited
Block A: Fairgrounds Office Park
Private Bag 00296
Gaborone
Tel: 3645100; Fax: 3905884
www.botswanalife.co.bw

Francistown Branch Office
Botswana Life House
Private Bag F283
Francistown
Tel: 2413 581; Fax: 2414 614

Selebi Phikwe Branch Office
Botswana Building Society House
The Mall
Private Bag 0081
Selebi Phikwe
Tel: 2614 226; Fax: 2615 834

Palapye Branch Office
Mam Estate Unit 3/4
P O Box 10449
Palapye
Tel: 4922 332; Fax: 4922 416

Maun Branch
Ngami Centre
Private Bag 140
Maun
Tel: 6860 129; Fax: 6860 126

Lobatse Branch Office
First Khama Avenue
Plot 474/5/6
Private Bag 105
Lobatse
Tel: 5331 422; Fax: 5331 423

BIHL Sure!
Plot 50374
Fairgrounds Financial Centre
P O Box 405744
Gaborone
Tel: 3707 400; Fax 3973 638

Legal Guard
Block D: Fairgrounds Office Park
P O Box 405744
Gaborone
Tel: 3634 710; Fax 3907 353