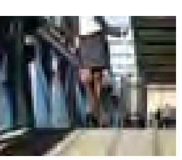
BOTSWANA INSURANCE

# 2011 Annual Report

**Theme**
The Botswana basket can be seen to represent BIHL right from the natural fibre fronds which, when woven together, form a durable functional and esthetical pleasing object. **Please turn to page 026**

**Chairman's Report**
The outcome for the Group however was far from disastrous... on the contrary the Group's solid financial results clearly indicate that BIHL weathered its "perfect storm" well. **Please turn to page 035**



**Introducing Short-term Insurance**
When you purchase short-term insurance you are protecting yourself against the possibility of losing your belongings and having to replace them yourself.
**Please turn to page 007**

THE BIHL THOMAS TLOU SCHOLARSHIP

**Corporate Social Investment**
BIHL, with the agreement of Professor Tlou's family and the University of Botswana, has set up a scholarship for deserving, underprivileged individuals who wish to pursue post-graduate studies.
**Please turn to page 120**

## 1 Introduction to the Group



## 2 Performance During the Year

### Botswana Life Insurance Limited



### BIHL Sure!



### Bifm

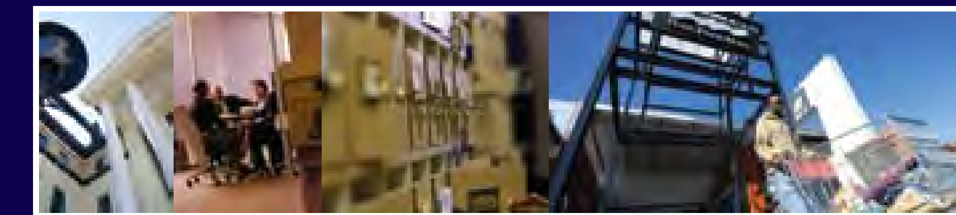


## 3 Corporate Governance and Reports



## 4 Annual Financial Statements





**We are a leading financial services group, originally established as a life insurance company in 1975. We listed on the BSE in 1991.**

### Our vision

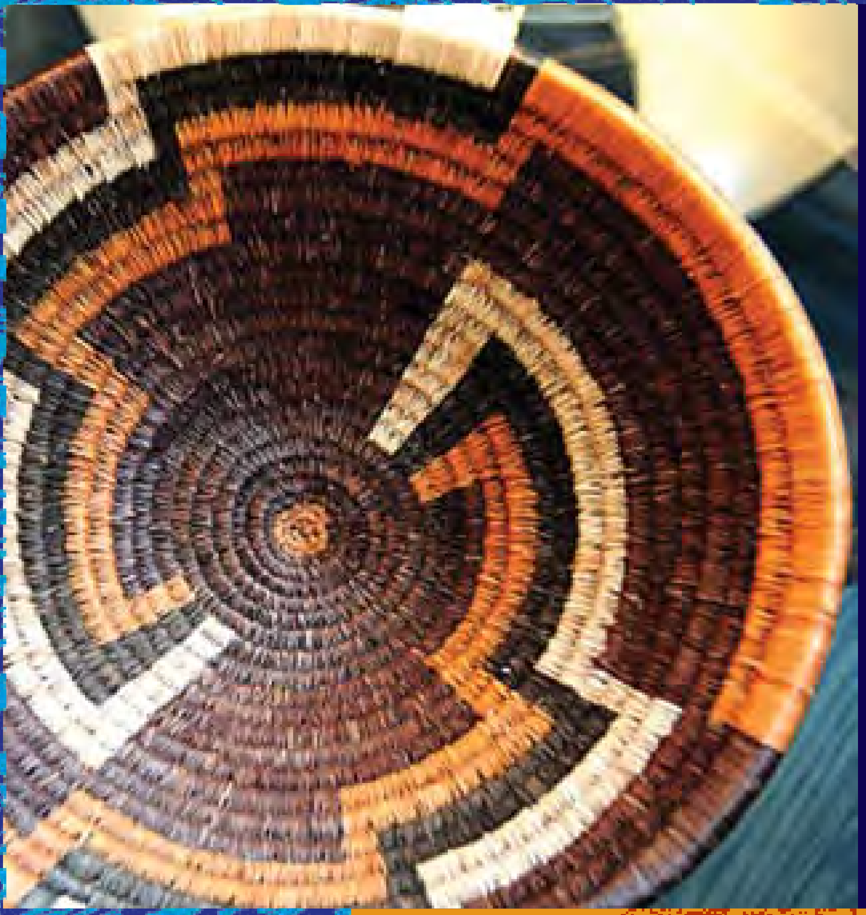
Our vision is to be the leader in wealth creation and protection in Botswana, leading that process in the emerging markets.

### 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 and employee benefits.

### Our core values

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



## Baskets

The traditional baskets made all over Botswana are created to be used for many purposes, primarily storage. BIHL can be likened to a traditional basket which stores or houses various resources. The resources in this case are assets, instead of different types of grains which are usually stored in these baskets. As in traditional basketry, different types of baskets are created for different uses, much like the different business units of BIHL. Ultimately these baskets enhance the quality of life of people that utilise them. Much in the same way BIHL returns value to its clients, investors and stakeholders.

# 01

# Introduction to **the Group**

# BOTSWANA. AFRICA'S GATEWAY

Botswana is a large (600,370km2), sparsely populated territory with 70 percent of its land surface made up of the Kalahari Desert.

It lies between Zimbabwe and Namibia to the east and west, Angola and Zambia to the north and South Africa to the south. The country gained independence from Britain on 30 September 1966. Today, Botswana is a stable, multi-party democracy and has held free and fair democratic elections regularly since independence. Its capital is Gaborone, a modern city that also serves as the country's financial hub.

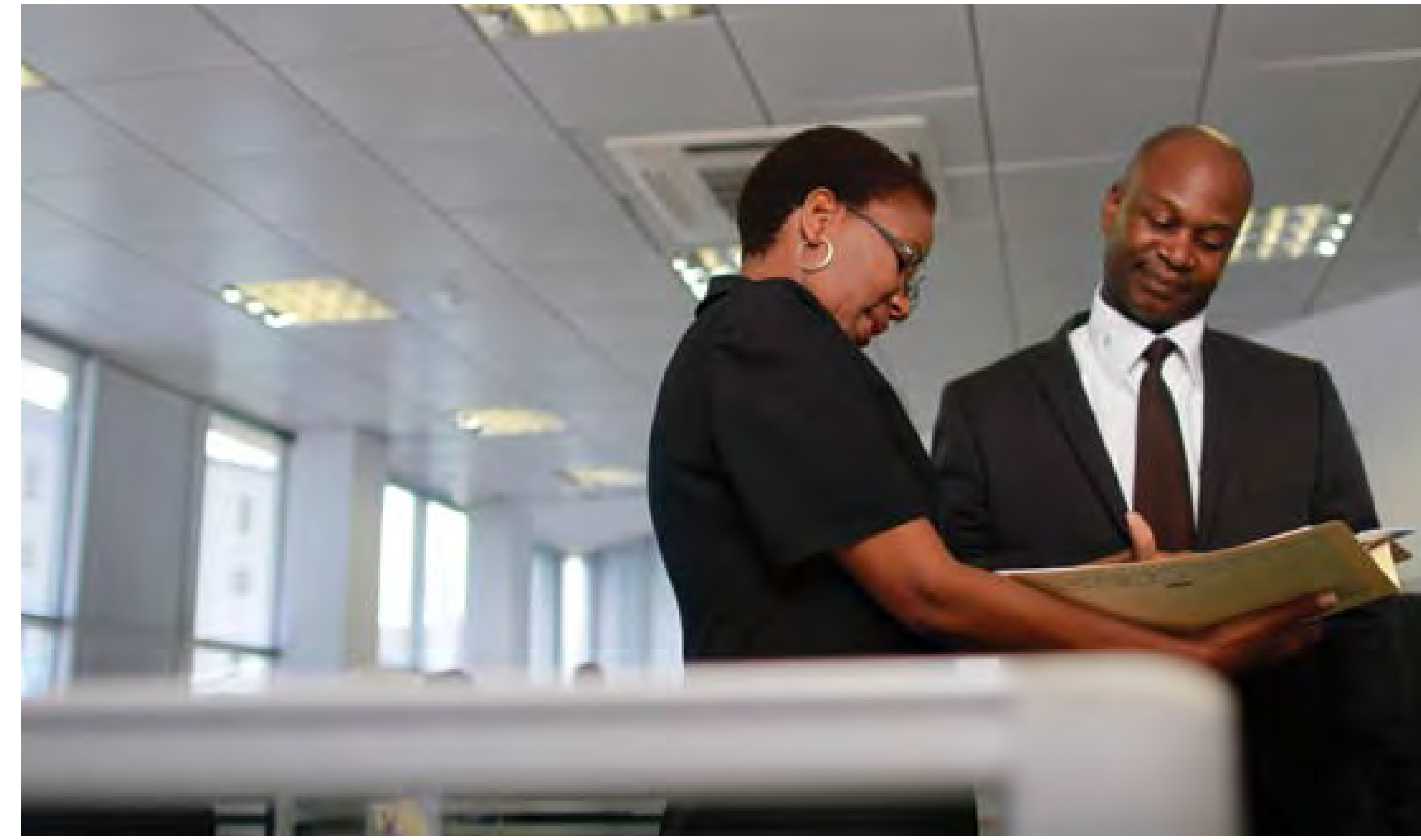
At independence, however, Botswana was one of the poorest countries in the world. It was the discovery of diamonds that gave the country the impetus required to be able to transform itself into a middle-income country with a standard of living for its citizens similar to that of Turkey. Diamonds continue to play a major role in the country's economy although attention is increasingly being given to the development of other industries as well. For many decades, Botswana had the highest economic growth rate of any nation in Africa, if not the world.

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

*BAOBAB Trees*

# GROUP EVENTS

A BRIEF OF WHAT HAS TAKEN PLACE DURING THE YEAR




## Gaffar Hassam appointed

**MR. GAFFAR HASSAM, WHO HAS** been with the BIHL Group since 2003, was appointed to the position of Group Chief Executive Officer effective on the 1st December 2011. Hassam has over the past years successfully guided the Group on sound financial management and governance. 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.

## Short-term insurance launched

**ON THE 25TH APRIL 2012 BIHL LAUNCHED A NEW** general insurance business called BIHL Sure! . The general insurance business caters for both the personal and commercial lines market. Product brands will include MotorSure!, Business Sure! and HomeSure! The Legal Guard expenses insurance will form part of their niche product offering. BIHL Group has committed to provide BIHL Sure! with additional capital of at least P25 million over the next 3 years. Headquartered in Gaborone, Sure! By BIHL plans to have office presence in more rural areas, by building on the existing established infrastructure and presence of BIHL Group in 12 locations across Botswana where Legal Guard and Botswana Life operate. In future, a web-based self-service functionality will make it possible for customers to contact BIHL Sure! 24 hours a day, using various electronic platforms like computers or mobile phones.

### Short-term at a glance

Short term insurance is insurance for the possessions that an individual owns, and short term insurance is usually taken out for your home, the contents in your home, and your car. When you purchase short-term insurance you are protecting yourself against the possibility of losing your belongings and having to replace them yourself. This form of insurance is selected only for the period that you need it. The reason why this insurance is classified as short term insurance is because your insurance needs in this regard will change over time.

# GROUP EVENTS


Recognising the strategic importance of being responsive to our stakeholders, we have developed and are implementing a systematic approach to identifying, prioritising and engaging with our key stakeholders.

As a large diversified company, our engagements with stakeholders have predominantly been very decentralised. A process is currently underway to develop a more coordinated stakeholder management strategy and action plan. We have completed a stakeholder mapping exercise that identifies and prioritises our stakeholders based on an assessment of their dependence on our activities and their ability to influence what we do. For each of these priority stakeholder groupings we have agreed whether the interaction with them should be coordinated at a Group or subsidiary level, and we have assigned responsibility for managing that relationship to a senior BIHL executive. Through this process we seek to ensure a systematic Group-wide approach to engaging with our stakeholders and to understand and respond to their respective interests. The outcome of these engagements informs the Group strategy and our internal risk assessment processes.

## Bifm Investor conference

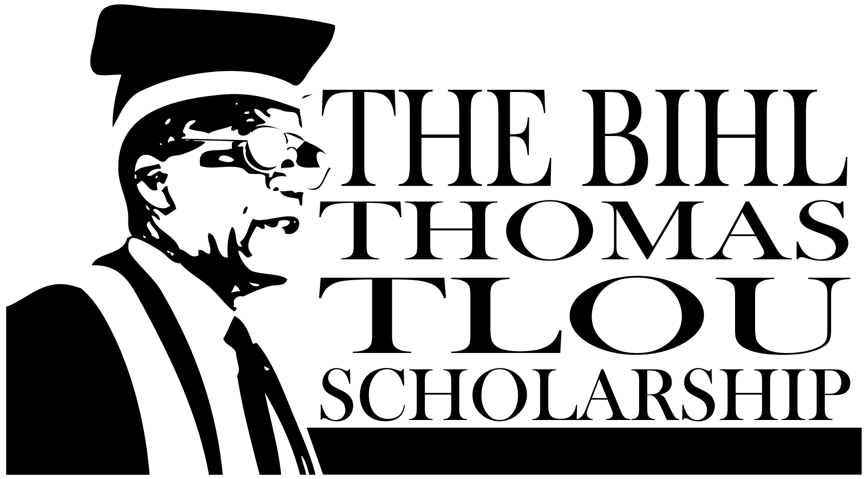
**THE OFFSHORE MANAGERS** conference allows Bifm's clients an opportunity to get a true picture of what to expect for the year ahead. Annually, our clients get presentations from our offshore managers; BlackRock and Sanlam Investment Management Global. BlackRock is one of the largest investment houses in the world, with US$3.5 trillion assets under management. Sanlam Investment Management Global has won Best 3 year performance in category Sector Equity Financial Services.

## Half year and Year-end results announcements

**AS A LISTED COMPANY ON THE** Botswana Stock Exchange, BIHL publishes its financial results mid-year and end of the financial year. Publicly reporting the financial performance of the business is in keeping with the BSE regulations as well as observing good corporate governance. Furthermore our valued stakeholders and shareholders are kept fully informed on the performance of the business.



## Community Outreach- Thomas Tlou Scholarship



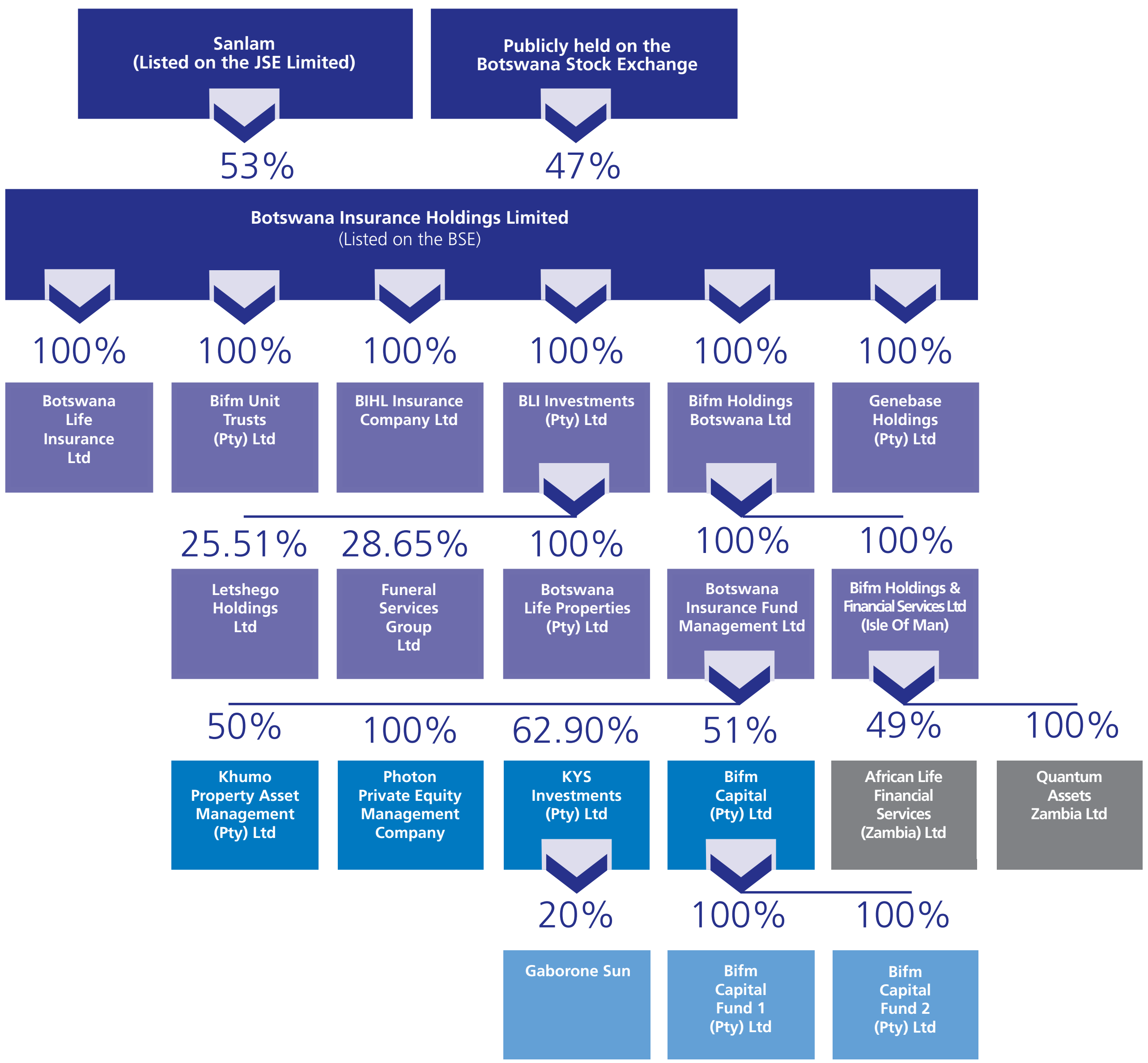

**BIHL AIMS TO PLAY AN ACTIVE** role in the development of Botswana's future. To that end BIHL, together with the Tlou family, led by Professor Sheila Tlou, established the Professor Thomas Tlou Scholarship. BIHL created the Scholarship for any discipline intended to contribute to the socio and economic development of Botswana. The first Scholarship will be awarded in the 2012 academic year. Through the Thomas Tlou Scholarship, BIHL aims to carry forward the rich heritage Professor Tlou left us; and recognise the significant role which the eminent historian played in Botswana's history.

## Botswana Life Roadshows

**BOTSWANA LIFE LOOKED AT** increasing public awareness and understanding of our brand, products and services, across various demographics and communities. To do this, we embarked on a roadshow that covers major towns in both the north and south of the country. The roadshows provided insurance education to our clients, in a fun and exciting manner.

# GROUP STRUCTURE

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.




The BIHL Group consists of the following four operating segments:

| | |
|---|---|
| **Life Insurance** | Botswana Life Insurance Limited - 100% - Life insurance |
| **Asset Management** | Bifm Unit Trusts (Pty) Ltd- 100%- Retail collective investments<br>Bifm Holdings Botswana Limited- 100%<br>**Subsidiaries**<br>- Botswana Insurance Fund Management Limited (Bifm) 100%-Asset management<br>- Khumo Property Asset Management (Pty) Ltd- JV- 50%- Property Management<br>- Photon Private Equity Management Company - 100%- Dormant<br>- KYS Investment (Pty) Ltd- 62.9%- owns 20% in Gaborone Sun<br>- Bifm Capital (Pty) Ltd -51%- Structured Finance<br>- Bifm Capital Fund 1 (Pty) Ltd- 100%<br>- Bifm Capital Fund 2 (Pty) Ltd- 100%<br>- Bifm Holdings & Financial Services Limited (Isle of man)-100%<br>- Quantum Assets Zambia Limited- 100% - Property Development<br>- African Life Financial Services (Zambia) Limited - 49%- Employee benefits |
| **Short term Insurance** | BIHL Insurance Company Limited- 100% - Short term insurance products |
| **Others** | Genebase Holdings Limted- 100%- Secured Loans<br>BLI Investments (Pty) Ltd- 100%<br>- Letshego Holdings Limted- 25.51%- Micro- lending<br>- Funeral Services Group- 28.65%- Funeral products<br>- Botswana Life Properties (Pty) Ltd- 100%- Dormant |

# FINANCIAL HIGHLIGHTS

Despite the backdrop of the economic climate and operational challenges within the Group, our financial results for 2011 were excellent. The Group's profit after tax rose by an impressive 42% while operating profit (excluding investment income and investment surpluses) increased by 12%. We have declared a dividend of 41 thebe which is in line with that of the previous year.

**Batsho Dambe-Groth, BIHL Chairperson**

## ASSETS UNDER MANAGEMENT

**PULA BILLION**

+1%

| | |
|---|---|
| 2011 | 17.8 |
| 2010 | 17.5 |

## EMBEDDED VALUE

**PULA BILLION**

0%

| | |
|---|---|
| 2011 | 2.4 |
| 2010 | 2.4 |

## OPERATING PROFIT

**PULA MILLION**

+12%

| | |
|---|---|
| 2011 | 316 |
| 2010 | 281 |

## VALUE OF NEW BUSINESS

**PULA MILLION**

-13%

| | |
|---|---|
| 2011 | 115 |
| 2010 | 132 |

## INVESTMENTS

**PULA BILLION**

+7%

| | |
|---|---|
| 2011 | 11.1 |
| 2010 | 10.4 |

## DIVIDEND PER SHARE

**THEBE**

0%

| | |
|---|---|
| 2011 | 66 |
| 2010 | 66 |

## SHAREHOLDER'S EQUITY

**PULA BILLION**

+23%

| | |
|---|---|
| 2011 | 1.7 |
| 2010 | 1.4 |

## PREMIUM INCOME

**PULA BILLION**

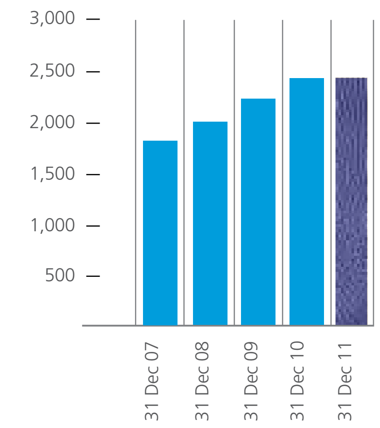
+9%

| | |
|---|---|
| 2011 | 1.8 |
| 2010 | 1.6 |



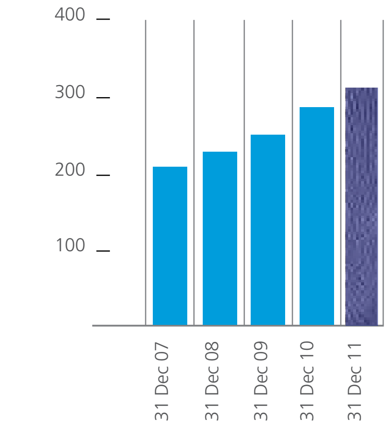
## EMBEDDED VALUE

**PULA BILLION** 2.4



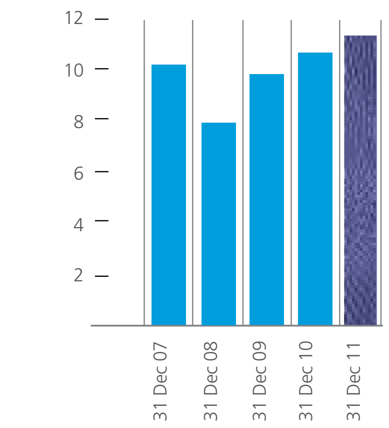

## OPERATING PROFIT

**PULA MILLION** 316



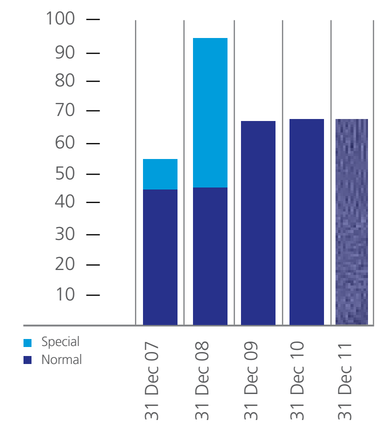

## INVESTMENTS

**PULA BILLION** 11.1



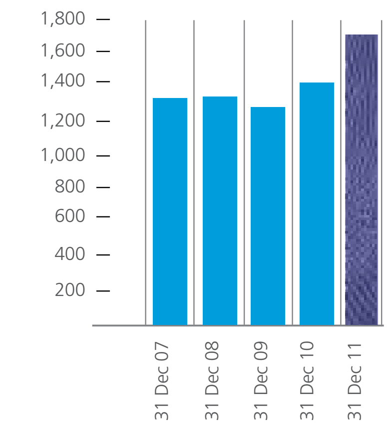

## DIVIDEND PER SHARE

**THEBE** 66



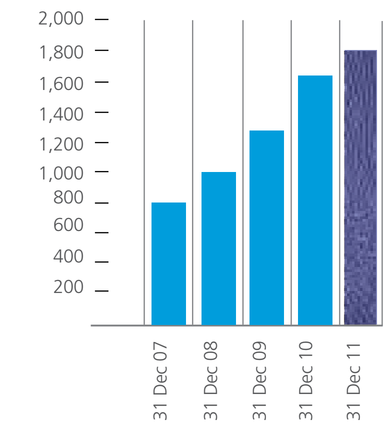

## SHAREHOLDER'S EQUITY

**PULA BILLION** 1.7



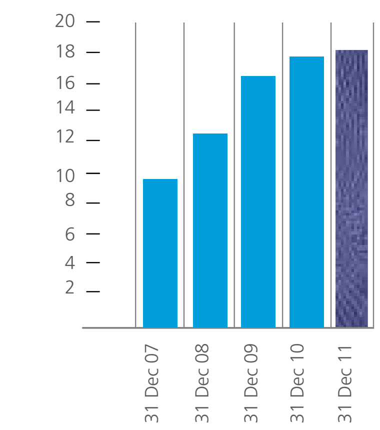

## PREMIUM INCOME

**PULA BILLION** 1.8



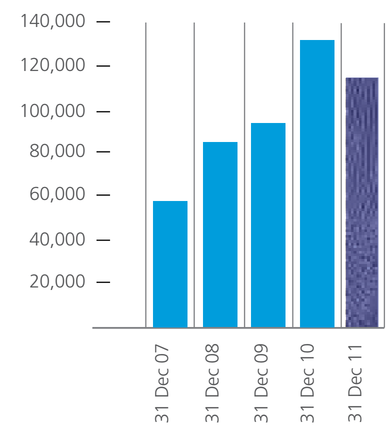

## ASSETS UNDER MANAGEMENT

**PULA BILLION** 17.8




## VALUE OF NEW BUSINESS

**PULA MILLION** 115



# FINANCIAL HIGHLIGHTS

| | Year to 31 Dec 2011 P million | Year to 31 Dec 2010 P million | % Change |
|---|---|---|---|
| **Group summary** | | | |
| Premium income (net of reinsurance) | 1,767 | 1,621 | 9% |
| Value of new business | 115 | 132 | (13%) |
| Operating profit | 316 | 281 | 12% |
| Total profit | 471 | 332 | 42% |
| Assets under management | 17,820 | 17,523 | 2% |
| Ordinary shareholders' equity | 1,691 | 1,374 | 23% |
| Total assets | 12,728 | 12,168 | 5% |
| Embedded value | 2,410 | 2,407 | 0% |
| **Productivity** | | | |
| Operating expenses to premium income and asset management fees | 13% | 13% | |
| Selling expenses to premium income | 12% | 18% | |
| Shareholder investment returns to average shareholder equity | 1% | 1% | |
| Return on embedded value | 8% | 18% | |
| **Solvency and liquidity** | | | |
| Capital adequacy cover (times) | 5.92 | 5.81 | |
| Dividend cover on core earnings** (times) | 1.76 | 1.83 | |
| **Ordinary share performance** | | | |
| Basic earnings thebe per share | 174 | 122 | 43% |
| Diluted earnings thebe per share | 173 | 120 | 44% |
| Dividend thebe per share -interim | 25 | 25 | 0% |
| -final proposed- Normal | 41 | 41 | 0% |
| Embedded value( thebe per share) | 907 | 893 | 2% |
| Trading prices (thebe per share) | | | |
| closing price | 976 | 1075 | (9%) |
| high | 1211 | 1100 | 10% |
| low | 960 | 760 | 26% |
| Price earnings ratio | 5.61 | 8.81 | (36%) |
| Domestic Companies Index (DCI) | 6,970.94 | 6,412.94 | 9% |
| Number of shares in issue ('000) | 281,071 | 281,071 | 0% |
| Number of shares traded ('000) | 8,394 | 6,359 | 32% |
| Market capitalisation (P million) | 2,743 | 2,951 | (7%) |
| Number of shareowners | 3,144 | 3,234 | (3%) |
| Earnings yield (%) | 16.03 | 13.12 | 22% |
| Dividend yield (%) | 6.00 | 6.00 | 0% |

** Core earnings include operating surplus and shareholder investment income





# ECONOMIC AND FINANCIAL MARKETS REVIEW

The global economic recovery, which promised so much at the beginning of the year, is unfortunately faltering. At the heart of the trouble is excessive public sector debt in the European periphery along with structural problems in the Euro zone.


This has placed many large European banks into technical insolvency and the net result is that the Euro zone area has already entered into a mild recession. The major emerging countries (China, India and Brazil) are also experiencing slower growth rates than in recent years mainly due to their restrictive monetary policies to combat rising inflation, along with declining export demand due to the global slowdown. However, the USA has recently experienced more positive economic data which could well translate into a solid year for the USA economy. Overall, the world economy is expected to be well below trend growth registering just over 2% for this year with the caveat of substantial downside risk if the Euro zone implodes.

Botswana recently reported its Q3 GDP numbers and the outcome has been mildly positive in that the non-mining sector has held up remarkably well. Despite the volatility in the mining sector, the year on year GDP growth recorded a very pleasing 4.1%. While it shows a slowdown compared with the previous quarter, this is still a solid number particularly when viewed against the developed world.
We anticipate, barring the crisis deepening in Europe, that Botswana should achieve around the 5% GDP growth level for 2012. Domestic inflation was the main problem area in the economy in 2011 from a macro point of view. The December headline inflation figure recorded 9.2%. We anticipate this to be close to the peak and then to decline consistently to around 6% by Q3 of this year. Given these forecasts of growth and inflation, it is likely that the Bank of Botswana will put the official interest rates on hold for the remainder of the year.

The Pula depreciated against the major currencies last year following the sell-off in the SA rand, but all in all we would anticipate a gentle appreciation this year as investors around the world seek yield.

FINANCIAL HIGHLIGHTS

# TEN YEAR REVIEW

| | Year to 31-Dec-11 P'000 | Year to 31-Dec-10 P'000 | 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 months to 31-Dec-05 P'000 | Year to 31-Mar-05 P'000 | Year to 31-Mar-04 P'000 | Year to 31-Mar-03 P'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group Consolidated Income Statement** | | | | | | | | | | |
| Net premium income | 1,767,046 | 1,620,513 | 1,253,413 | 958,636 | 791,281 | 678,983 | 450,647 | 527,492 | 488,892 | 354,299 |
| - Recurring | 877,636 | 754,096 | 682,577 | 565,313 | 447,885 | 371,750 | 255,517 | 297,406 | 289,468 | 261,063 |
| - Single | 889,410 | 866,417 | 570,836 | 393,323 | 343,396 | 307,233 | 195,130 | 230,086 | 199,424 | 93,236 |
| Pension and investment contribution | | | | | | | | | | |
| Fee income | 110,944 | 137,249 | 120,623 | 121,308 | 110,316 | 81,466 | 46,802 | 40,420 | 53,368 | 50,751 |
| Fair value gains on investment properties | - | - | - | 8,768 | 80,682 | 23,221 | (6,921) | 3,863 | - | - |
| Investment income | 64,352 | 73,257 | 57,397 | 93,223 | 215,321 | 158,198 | 31,038 | 27,233 | 27,602 | 36,149 |
| Net gains/(losses) from financial assets held at fair value through profit and loss | 56,998 | 17,985 | (72,412) | (90,831) | 226,424 | 161,872 | 124,110 | 30,832 | 830,867 | (482,416) |
| Net income | 1,999,340 | 1,849,004 | 1,359,021 | 1,091,104 | 1,424,024 | 1,103,740 | 645,677 | 629,841 | 1,400,729 | (41,217) |
| **Net policyholder movement** | (1,139,534) | (984,430) | (680,809) | (533,289) | (566,599) | (522,356) | (325,935) | (290,360) | (1,155,952) | 278,909 |
| Policyholders' income/(loss) | 796,336 | 198,164 | 1,497,834 | (1,545,432) | 1,341,241 | 1,993,679 | 1,471,668 | 595,312 | 185,410 | (89,302) |
| Investment income | 719,010 | 396,933 | 422,587 | 369,991 | 388,912 | 332,025 | 239,447 | 298,925 | 43,606 | (34,265) |
| Net gains/(losses) on financial assets held at fair value through profit and loss | 77,324 | (198,770) | 1,075,247 | (1,915,424) | 952,328 | 1,661,653 | 1,232,221 | 296,387 | 141,803 | (55,038) |
| **Net insurance and investment contract benefits and claims** | (1,935,869) | (1,182,594) | (2,178,644) | 1,012,143 | (1,907,840) | (2,516,035) | (1,797,603) | (885,672) | (1,341,362) | 368,211 |
| Policyholder benefits paid | (907,459) | (712,524) | (524,344) | (418,695) | (343,149) | (257,557) | 149,194) | (158,008) | (151,555) | (81,947) |
| Change in liabilities under investment contracts | (400,986) | (132,674) | (850,960) | 1,534,843 | (1,038,206) | (1,700,829) | (1,299,982) | (438,329) | (830,867) | 482,416 |
| Change in policyholder liabilities under insurance contracts | (627,424) | (337,396) | (803,342) | (104,008) | (526,488) | (557,652) | (348,430) | (289,338) | (358,943) | (32,261) |
| **Expenses** | (465,265) | (534,852) | (447,815) | (332,115) | (257,737) | (190,604) | (132,399) | (145,201) | (129,108) | (116,699) |
| Selling expenses | (219,687) | (297,649) | (245,028) | (165,735) | (118,067) | (73,241) | (51,124) | (67,837) | (54,015) | (45,374) |
| Administration expenses | (245,578) | (237,203) | (202,787) | (166,380) | (139,670) | (117,363) | (81,275) | (77,364) | (71,388) | (67,620) |
| Goodwill impaired and amortised | - | - | - | - | - | - | - | - | (3,705) | (3,705) |
| Profit before share of profit of associates and joint ventures | 394,541 | 329,722 | 230,397 | 225,700 | 599,688 | 390,780 | 187,343 | 194,280 | 115,669 | 120,993 |
| Share of profit of associates and joint ventures | 133,872 | 72,217 | 26,821 | 9,802 | 4,001 | 2,304 | 4,465 | (3,853) | 1,965 | 2,427 |
| Profit before tax | 528,413 | 401,939 | 257,218 | 235,501 | 603,689 | 393,084 | 191,808 | 190,427 | 117,634 | 123,420 |
| Income tax expense | (57,083) | (69,456) | (19,544) | (14,037) | (49,867) | (77,021) | (34,453) | (33,664) | (13,494) | (21,576) |
| Profit for the year | 471,330 | 332,483 | 237,673 | 221,463 | 553,821 | 316,062 | 157,354 | 156,762 | 104,139 | 101,843 |
| Earnings per share (thebe) | | | | | | | | | | |
| - basic | 174.00 | 122.00 | 87.00 | 77.03 | 205.81 | 119.2 | 64.9 | 62.1 | 38.3 | 37.0 |
| Gross dividends per share (thebe) | 66.00 | 66.0 | 77.03 | 56.0 | 56.0 | 42.0 | 27.5 | 23.5 | 20.0 | 15.0 |
| Weighted average number of shares in issue ('000) | 265,812 | 263,979 | 261,967 | 262,567 | 259,519 | 259,833 | 259,291 | 252,616 | 269,369 | 267,257 |

FINANCIAL HIGHLIGHTS

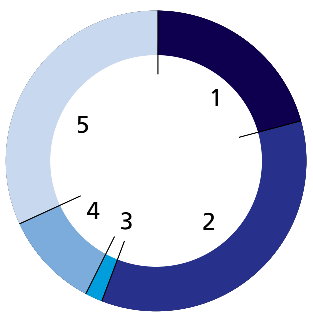
# TEN YEAR REVIEW

| | Year to 31-Dec-11 P'000 | Year to 31-Dec-10 P'000 | 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 months to 31-Dec-05 P'000 | Year to 31-Mar-05 P'000 | Year to 31-Mar-04 P'000 | Year to 31-Mar-03 P'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group Consolidated Statement of Financial Position** | | | | | | | | | | |
| Property and equipment | 12,561 | 15,854 | 18,487 | 16,890 | 13,962 | 20,666 | 43,873 | 47,527 | 16,497 | 18,091 |
| Intangible assets | 146,735 | 140,782 | 82,622 | 79,821 | 16,337 | 14,649 | 15,610 | 16,632 | 16,121 | 18,649 |
| Investments | 11,111,149 | 10,428,159 | 9,648,070 | 7,880,357 | 10,015,626 | 8,876,477 | 6,767,586 | 5,390,907 | 6,007,611 | 4,423,241 |
| Trade and other recievables | 209,360 | 206,991 | 218,458 | 165,689 | 65,764 | 62,004 | 91,281 | 78,862 | 207,938 | 183,633 |
| Cash deposits and similar securities | 1,248,600 | 1,376,228 | 1,414,988 | 1,384,478 | 672,170 | 255,198 | 7,287 | 7,234 | 6,265 | 5,668 |
| Total assets | 12,728,405 | 12,168,015 | 11,382,626 | 9,527,235 | 10,783,859 | 9,228,994 | 6,925,637 | 5,541,162 | 6,254,432 | 4,649,282 |
| Ordinary shareholders' equity | 1,690,795 | 1,374,259 | 1,261,805 | 1,331,035 | 1,317,057 | 849,136 | 644,588 | 506,506 | 549,852 | 483,167 |
| Non-controlling interest | 36,050 | 31,588 | 35,042 | 31,095 | 55,006 | 21,172 | 17,723 | 13,051 | 17,207 | 7,396 |
| Policyholder liabilities | 10,587,045 | 10,311,402 | 9,762,230 | 7,819,021 | 9,129,979 | 8,140,007 | 6,114,114 | 4,882,945 | 5,567,539 | 3,989,152 |
| - insurance contracts | 4,573,612 | 3,957,129 | 3,633,013 | 2,817,683 | 2,683,973 | 2,157,459 | 1,599,913 | 1,287,454 | 1,020,160 | 661,002 |
| - investment contracts | 6,013,433 | 6,354,273 | 6,129,217 | 5,001,338 | 6,446,006 | 5,982,548 | 4,514,201 | 3,595,491 | 4,547,379 | 3,328,150 |
| Deferred tax liability | 12,726 | 19,050 | 21,090 | 49,760 | 70,246 | 50,664 | 17,494 | 13,785 | 7,434 | 305 |
| Trade and other payables | 401,789 | 431,716 | 302,459 | 296,324 | 211,571 | 168,015 | 131,718 | 124,875 | 112,400 | 169,262 |
| Total equity and liabilities | 12,728,405 | 12,168,015 | 11,382,626 | 9,527,235 | 10,783,859 | 9,228,994 | 6,925,637 | 5,541,162 | 6,254,432 | 4,649,282 |
| **Group Statement of Cash Flows** | | | | | | | | | | |
| Cash (utilised in)/generated from operating activities | (85,378) | 937,655 | 2,124,523 | (1,109,328) | 1,184,913 | 106,098 | 134,266 | 15,157 | 611,092 | 2,270,601 |
| Interest received | 425,096 | 45,502 | 35,115 | 74,364 | 45,495 | 32,502 | 85,280 | 164,903 | 57,550 | 60,932 |
| Tax paid | (69,253) | (59,179) | (40,263) | (46,656) | (44,276) | (50,044) | (32,153) | (21,838) | (74,871) | (54,750) |
| Dividends paid | 65,353 | (205,307) | (241,153) | (157,220) | (152,840) | (88,610) | (48,438) | (68,922) | (60,650) | (45,761) |
| Cash flow from operating activities | 335,818 | 718,672 | 1,878,222 | (1,238,840) | 1,033,292 | (54) | 138,955 | 89,300 | 533,121 | 2,231,022 |
| Cashflow utilised in investing activities | (463,446) | (757,432) | (1,847,713) | 1,951,148 | (616,320) | (954,666) | (138,470) | (89,455) | (534,013) | (2,232,460) |
| Net (decrease)/increase in cash and cash equivalents | (127,628) | (38,760) | 30,509 | 712,308 | 416,972 | (954,720) | 485 | (155) | (892) | (1,438) |
| Cash and cash equivalents at the beginning of the year | 1,376,228 | 1,414,988 | 1,384,479 | 672,170 | 255,198 | 1,209,918 | 7,234 | 6,265 | 5,668 | 7,106 |
| Cash and cash equivalents at the end of the year | 1,248,600 | 1,376,228 | 1,414,988 | 1,384,478 | 672,170 | 255,198 | 7,287 | 7,234 | 6,265 | 5,668 |

FINANCIAL HIGHLIGHTS

# VALUE ADDED STATEMENT

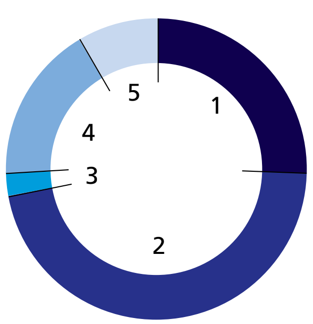
## VALUE ADDED DISTRIBUTION 2011




**P528 mil**

| | | |
|---|---|---|
| 1 | Employees | 21 |
| 2 | Shareholders | 35 |
| 3 | Minority Shareholders | 2 |
| 4 | Government | 11 |
| 5 | Retained for Expansion and Growth | 32 |

## VALUE ADDED DISTRIBUTION 2010




**P402 mil**

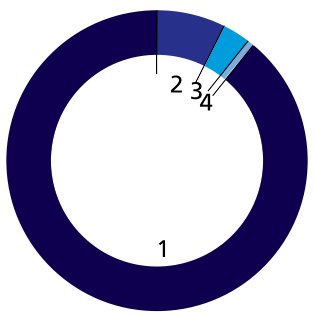
| | | |
|---|---|---|
| 1 | Employees | 26 |
| 2 | Shareholders | 46 |
| 3 | Minority Shareholders | 2 |
| 4 | Government | 17 |
| 5 | Retained for Expansion and Growth | 8 |

| | Year to Dec 2011 P'000 | Year to Dec 2010 P'000 |
|---|---|---|
| **Value Added** | | |
| Income from operations | 1,901,137 | 1,649,315 |
| Operating expenditure | (465,265) | (534,852) |
| Policyholder benefits paid | (907,459) | (712,524) |
| | 528,413 | 401,939 |
| **Value Distributed** | | |
| To employees | | |
| Salaries, wages and other benefits | 110,329 | 103,656 |
| To ordinary shareholders | | |
| Dividends- Normal | 185,507 | 185,507 |
| To minority shareholders | 8,357 | 9,933 |
| To Government | | |
| Taxation | 57,083 | 69,456 |
| To expansion and growth | | |
| Reinvested in the business for future growth | 165,872 | 29,945 |
| Amortisation | 1,836 | 1,113 |
| Depreciation | 4,801 | 5,097 |
| Deferred taxation | (5,371) | (2,768) |
| | 167,137 | 33,387 |
| | 528,413 | 401,939 |
| **Summary** | | |
| Employees | 21% | 26% |
| Shareholders | 35% | 46% |
| Minority shareholders | 2% | 2% |
| Government | 11% | 17% |
| Retained for expansion and growth | 32% | 8% |
| | 100% | 100% |



# ORDINARY SHARE ANALYSIS

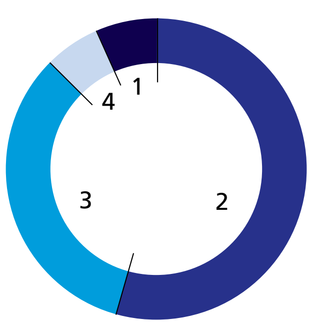
## BREAKDOWN OF SHAREHOLDERS 2011




**3144**

| | |
|---|---|
| 1. Corporate bodies | 7.67 |
| 2. Nominees companies | 2.93 |
| 3. Trust accounts | 0.38 |
| 4. Private individuals | 89.03 |

## BREAKDOWN OF SHARES HELD 2010




**3144**

| | |
|---|---|
| 1. Corporate bodies | 54.42 |
| 2. Nominees companies | 32.94 |
| 3. Trust accounts | 5.97 |
| 4. Private individuals | 6.68 |

| | Shareholders | | Shares held | |
|---|---|---|---|---|
| | Number of holders | % of holders | Shares held | % of issued shares |
| 1- 5000 | 2,369 | 75.35% | 2,356,106 | 0.84% |
| 5001-10000 | 290 | 9.22% | 2,055,662 | 0.73% |
| 10001- 50000 | 337 | 10.72% | 7,127,652 | 2.54% |
| 50001-100000 | 49 | 1.56% | 3,444,910 | 1.23% |
| 100001- 500000 | 71 | 2.26% | 17,282,056 | 6.15% |
| 500,001 - 1000,000 | 11 | 0.35% | 7,466,929 | 2.66% |
| OVER 1,000,000 | 17 | 0.54% | 241,337,337 | 85.86% |
| Total | 3,144 | 100.00% | 281,070,652 | 100.00% |

| Top ten shareholders | | |
|---|---|---|
| Sanlam Developing Markets Limited | 100,915,844 | 35.90% |
| African Life Assurance Co. (Botswana) (Pty) Ltd | 48,603,380 | 17.29% |
| SCBN (Pty) Ltd Re: Fam 3582376 | 14,985,359 | 5.33% |
| SCBN(Pty)Ltd Re:Bifm Bpopf | 12,997,590 | 4.62% |
| Scbn (Pty) Ltd Re: Iam 030/14 | 12,571,370 | 4.47% |
| Stanbic Nominees Re: Bifm | 10,759,864 | 3.83% |
| Motor Vehicle Accident Fund | 10,735,164 | 3.82% |
| FNB Nominees (Pty)Ltd Re:CFM BPOPF10001011 | 5,373,267 | 1.91% |
| FNB Nominees (Pty)Ltd Re:sims BPOPF 10001009 | 4,346,478 | 1.55% |
| SCBN (Pty) Ltd Re: Fam 201/010 | 4,258,581 | 1.52% |
| Other | 55,523,755 | 19.75% |
| | 281,070,652 | 100.00% |

| | Shareholders | | Shares held | |
|---|---|---|---|---|
| Category | Number | % | Number | % |
| Corporate bodies | 241 | 7.67% | 152,947,433 | 54.42% |
| Nominees companies | 92 | 2.93% | 92,592,831 | 32.94% |
| Trust accounts | 12 | 0.38% | 16,766,276 | 5.97% |
| Private individuals | 2,799 | 89.03% | 18,764,112 | 6.68% |
| | 3,144 | 100.00% | 281,070,652 | 100.00% |

# OUR STRATEGY

## Focusing on the five pillars

By focusing on five pillars for the past number of years, we have achieved market-leading growth and have transformed BIHL into an efficient and profitable company, with a healthy capital position, that is well placed to withstanding market volatility and sustain its performance over the long term.

**The five pillars that make up our strategy are:**

| Optimal capital utilisation | Earnings growth | Costs and efficiencies | Diversification | Transformation |
|---|---|---|---|---|
| We focus on allocating appropriate capital to business operations, while remaining financially conservative, to ensure that all discretionary capital is identified and redistributed into profitable and sustainable growth opportunities. | We aim to grow our earnings through our ability to adapt effectively to the continuing changing business environment and investments in growth markets. | We strive to control costs and maximise efficiencies through effective risk management and governance practices, and by attracting, retaining and developing talent. | We promote strategic diversification and grow our client base by developing new products and services. | We are committed to promoting transformation and diversity both within our operations and more broadly through our contribution to socio-economic development. |

**Aiming High**

*Growth is not just about the bottom line. At BIHL, careful management and nurturing of human capital, technology systems and financial services best practices plays a part of a healthy bottom line*

# SUSTAINABILITY THROUGH RESPONSIBILITY

## To our investors, clients and employees and the environment

As a caring and responsible corporate citizen, BIHL is acutely aware of the impact that climate change and the ongoing water crisis will have on our business, our people and the planet. Our ability to create value for our shareholders and other stakeholders over the short, medium and long-term is dependent upon our responsible actions and capacity to adapt to an increasingly challenging business environment. While our 37 year history and our strong performance during the recent global financial crisis bear testimony to our resilience, we believe that we are likely to face continuing business turbulence given the context of current economic, social and environmental challenges. We recognise that we cannot rely on our past performance alone if we are to achieve our vision of being a leader in wealth creation and protection.

At BIHL we therefore consider sustainability a strategic business component enabling us to remain responsive to the increasingly interconnected societal challenges and changing expectations of our stakeholders and the environment. With the aim of keeping our stakeholders informed of the key pillars that impact on our ability to create and sustain value, the BIHL Group has embraced the concept of integrated reporting.

## 1975>

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

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

**1977:** Botswana Insurance Company sells its first life policy.

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

## 1987>

**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.

## 1993>

**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>

**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.

CASE STUDY

## Tapologo Estates

In the early 90's there existed an opportunity for Bifm to diversify its property portfolio in Gaborone by venturing into the residential property market. The development that Bifm built and subsequently managed was called Tapologo Estates.

This was one of the first residential developments of its kind in that it was inclusive of a wider demographic. The development featured free standing houses, town houses and flats. Young professionals as well as families could be catered for all in one secure development. An additional incentive for potential tenants was the lifestyle enhancing elements within the development. Tapologo Estate featured communal recreational options such as a swimming pool and tennis courts for use by the residents of the Estate.

Due to changing market conditions Bifm sold off the free standing houses of Tapologo estates and retained the town houses and flats in the development. In 2005 Tapologo Estates was one of the properties Bifm transferred to Turnstar in exchange for a majority shareholding in that company. Turnstar is a listed company that continues to give Bifm positive returns.

# OUR THEME

## Botswana's baskets, our heritage

The theme for the 2011 annual report is our Heritage as reflected through Botswana's basketry. Just like the baskets made in Botswana, BIHL has multiple uses through its different business units making the company versatile. When you go even closer you find that the baskets are made from many strands woven just so. This intricate weaving is where BIHL gets its strength as each strand relies on the next. Each individual strand can be viewed as the different business units and products in the BIHL portfolio. When the various business units come together into a woven structure they form a durable and versatile company that preserves assets while returning value. The Botswana basket can be seen to represent BIHL right from the natural fibre fronds which, when woven together, form a durable functional and esthetically pleasing object. This practical object improves the quality of life of the people who created it and ultimately use it. Deconstructing traditional basketry to explain why BIHL is so incredible, makes for an authentic story about the Business. BIHL, a Botswana company steeped in the nation's heritage.

## 2000>

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

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

## 2003>

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

## 2005>

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

## 2006>

**2006:** 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.

CASE STUDY

## Office of the Ombudsman

The P54-million aesthetic, face-brick block on the corner of Khama Crescent and Queens Road in Gaborone's Main Mall, which has already attracted the jazzy moniker of 'Plot 21' after its physical address, is the product of a partnership between the Government and a private sector consortium led by Botswana Insurance Fund Management (Bifm). The Public Private Partnership (PPP) involved; the Government of Botswana which owns the piece of land; Bifm which provided the bulk of the P54-million project financing; and Stocks & Stocks Botswana for the design and construction aspect. The objective of PPPs is to deliver public services in the most effective way while stimulating the private sector's contribution to economic development, simultaneously allocating risk and return between the parties involved to ensure that the best interests of stakeholders are served. The other shareholders are Stock Building Africa, which led the consortium that constructed Plot 21; Outsourcing Botswana, which is responsible for the management and maintenance of the building through the life of the 10 year concession to 2017. The project at Plot 21 commenced on February 21, 2007 and was completed by June 20, 2008, delivered within budget and on time. Plot 21 PPP illustrates the efficiency of this approach to economic development.

# OBJECTIVES

## Achieving more together

"Many hands make light work" is a well-known idiom that is put into practice time and again by the skilled hands at BIHL. The many professionals that make up BIHL and its various subsidiaries have one goal which is to return sustainable value to our stakeholders and shareholders. The team at BIHL formulates carefully considered strategies after thorough consultation with industry experts backed by extensive market research. Implementation is carried out by departments headed by skilled leaders who have every confidence in their team members. Through the combined efforts of a well-motivated team in every department within the Group, shareholders and other stakeholders receive sustainable returns. The Group is in the process of implementing strategies that will make BIHL and the other business units more systemic in identifying, prioritising and engaging with our key stakeholders. This strategy is in line with achieving more together with our stakeholders in order to return value to our shareholders.

## 2009>

**2009:** A stone's throw away from the New CBD in Phase 2 is a major landmark, which marks the pride of the Southern Africa – the new SADC Headquarters. The seven-storey building 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>

**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>

**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 ■

CASE STUDY

# Airport Junction

On the 26th April 2012 the Airport Junction Shopping Centre was officially opened in the Block 10 area in northern Gaborone. The 50 000m² retail development features a wide range of fully enclosed retail options which include supermarkets, restaurants, fashion, hardware and furniture stores among other retail outlets.

At the official opening of Airport Junction, the Assistant Minister of Finance and Development Planning, Dr. Gloria Somolekae lauded the development as, "an example of meaningful private sector participation in building Botswana's economy." Dr. Somolekae went on to point out some of the results of the development, including 700 permanent jobs created and bringing brands such as @Home, Checkers and Builders Warehouse to Botswana. Airport Junction is managed by Khumo Property Asset Management which is a joint venture between Bifm and Eris Property Group of South Africa on a 50/50 ownership basis. Khumo PAM assists in the development and manages Bifm's property portfolio which includes Rail Park Mall, The Office of the Ombudsman and The Land Tribunal.

# MEMBERS OF THE BOARD

***From left:*** *Uttum Corea, Batsho Pamela Dambe-Groth, Gaffar Hassam, John Hinchliffe, Margaret Mercer Dawes, Heinie Carl Werth, Francois Johannes Kellerman, Mahube Chilisana Mpugwa, Chandra Chauhan and Thomas Schultz*

***Not in picture:*** *Mpho Seboni*

**Batsho Pamela Dambe-Groth (46)** +++
**Group Board Chairperson**
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.

**Margaret Mercer Dawes (54)** ++
Margaret Dawes is Executive Director, Africa at Sanlam Emerging Markets Ltd., (formerly Sanlam Developing Markets). She was appointed to the BIHL Board on 02 February, 2005. A qualified Chartered Accountant, Ms. Dawes began her career in London before moving to South Africa in 1984. She joined African Life Assurance Company as Group Financial Director in 2005. Following Sanlam's acquisition of African Life and African Life becoming a division of Sanlam Developing Markets (SDM), Ms. Dawes

# MEMBERS OF THE BOARD

became Chief Financial Officer of SDM before being appointed to her present position in 2008.

Educated in Bermuda and the UK, Ms. Dawes has a BSc (Hons) (University of London), ACA (Eng & Wales); CA (SA); and HDip Tax Law (Wits).

**Heinie Carl Werth (48)** ++
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 degrees from Stellenbosch University, an MBA (Cum Laude) from Stellenbosch University and an EDP from Manchester Business School.

**Francois Johannes Kellerman (44)** ++
Francois Kellerman is Chief Financial Officer at Sanlam Investments. He was appointed to the BIHL Board on 15 August, 2007. A Chartered Accountant, he joined Sanlam Asset Management in 1995 and held various positions in the company before being appointed to his current position in 2005.

Mr Kellerman has a B. Acc (Hons, CA (SA) and CFA

**Uttum Corea (64)** +++
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 FCPA (Botswana) as well as PIAM (Harvard).

**Chandra Chauhan (49)** +++
Chandra is a Chartered Accountant who trained and qualified with KPMG in the United Kingdom. A Zambian by birth, he became a naturalized citizen of Botswana and has over the years become a very successful entrepreneur and respected businessman.

He is currently the Group Managing Director of Sefalana Holding Company Limited, a listed company on the Botswana Stock Exchange, having been appointed to it's 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 P640 million. He was appointed to the BIHL Board on 20 April 2009.

He is the Chairman of the Board of Botswana Insurance Fund Management (Bifm), the Chairman of the HR Committee.

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

**Mahube Chilisana Mpugwa (44)** +++
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 as Marketing Communications Manager 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 an MBA from the University of Stratchclyde, Scotland.

**John Hinchliffe (55)** +++
John Hinchliffe heads John Hinchliffe Consultants, an accounting and consulting practice in Gaborone. 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; DCDM Consulting (Pty) Limited; Nsenya (Pty) Limited; Portion 84 Mokolodi Sanctuary (Pty) Limited; Mokolodi Utilities (Pty) Limited; Kalahari Conservation Society; and Camphill Community Trust.

Mr. Hinchliffe began his career as an accountant at Coopers and Lybrand in London, before being seconded to the firm's Botswana office in 1982. Thereafter he worked for two other Botswana companies before establishing his own consultancy in Gaborone. He then joined DCDM Botswana as Managing Director before re-establishing his consulting firm in 2005.



He has a BA (Econ) Honours degree from Manchester University, FCA (England & Wales) and he is a member of the Botswana Institute of Chartered Accountants (BICA).

**Gaffar Hassam (36)** +
Gaffar Hassam was appointed as Group Chief Executive Officer, BIHL and became a member of the Board on 01 December 2011. He joined the Group in 2003 as Botswana Life Finance Manager and BIHL Company Secretary. Prior to his current appointment, 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 Group 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).

**Mpho Seboni (50)** +++
Mpho Seboni is Managing Director and a Consultant 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.

**Thomas Schultz (39)** ++
Thomas Schultz is Executive Head 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 in Economics (RAU).

**Members of the Botswana Life Insurance Limited Board (BLIL)**
John Hinchliffe (Chairman)
Uttum Corea
Margaret Dawes
Catherine Lesetedi – Letegele (CEO)
Heinie Werth

**Members of the Botswana Insurance Fund Management Limited Board (Bifm)**
Chandra Chauhan (Chairman)
Francois Kellerman
Tiny Kgatlwane (CEO)
Mahube Mpugwa
Thomas Schultz

**Members of the BIHL Insurance Company Limited Board (BIHLIC)**
John Hinchliffe (Chairman)
Margaret Dawes
John Haenen (CEO)
Merrick Oeschger
Batsho Dambe- Groth

**Members of the Bifm Unit Trusts**
Mike Main (Chairman)
Patient Samukelo Thuto Chibanda
Chandra Chauhan
Tiny Kgatlwane
Benjamin Tobedza

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

**BIHL Investment Committee**
Thomas Schultz (Chairman)
Keith R. Jefferis
Mahube M. Mpugwa

**Human Resources Committee**
Chandra Chauhan (Chairman)
Margaret M. Dawes
Batsho P. Dambe – Groth
Heinie C. Werth

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

**Independent Review Committee**
John Hinchliffe (Chairman)
Uttum Corea

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



# EMERGING STRONGER, MORE RESILIENT

## 2011 could be described for BIHL as the year in which it weathered the "perfect storm."

*Batsho Pamela Dambe - Groth*
*Group Board Chairperson*

A perfect storm is defined as "a combination of events which are not individually dangerous, but occurring together produce a disastrous outcome." BIHL's "perfect storm" was the result of the convergence of turbulent operational challenges and uncertainties of the global and local economies.

The outcome for the Group, however, was far from disastrous... on the contrary the Group's solid financial results clearly indicate that BIHL weathered its "perfect storm" well. Indeed, it has emerged a stronger, a more resilient business and with Mr. Gaffar Hassam at the helm as the new Group CEO. Gaffar is no stranger to BIHL, having joined the Group in 2003. He has served it in several different capacities over the years and proved his mettle when stepping in at short notice as acting Group CEO. His appointment on 1 December 2011 was widely and deservedly welcomed. I am confident that under his leadership, the Group's progress towards becoming a multi-faceted, broad-based and innovative financial services company will continue unabated.

### Economic Environment

The promised recovery in the global economy faltered during the year as excessive public sector debt in the European periphery and structural problems in the Euro zone took their toll. Expectations are that Europe will continue to wallow in recession for the foreseeable future. While there have been indications of improved economic conditions in the United States which could cushion the effects of the European drag on the global economy, the situation there remains uncertain.

Meanwhile growth in the major emerging countries – China, India and Brazil – which have been hailed as the drivers of the global economic recovery has also began to slow down. This is due to the rising inflation concerns and reduced demand for their exports.

# GROUP CHAIRPERSON'S LETTER

The Botswana economy was not immune to these developments and our own growth slowed slightly, albeit to a still respectable 6% in Q4. Inflation, however, remained a problem throughout the year, reaching 9.2% by year-end. Amidst all of this was the protracted public sector strike. The impact of the strike was felt by both our main operating companies - Botswana Life and Bifm – and had a direct impact on their performance.

## Performance

Despite the backdrop of the economic climate, the public sector strike and operational challenges within the Group, our financial results for 2011 were excellent. The Group's profit after tax rose by an impressive 42% while operating profit (excluding investment income and investment surpluses) increased by 12%. However, because of the ongoing uncertainties faced by the Group and ongoing economic and operational challenges, prudence will remain our watchword for the foreseeable future. We have therefore declared a final dividend of 41 thebe which is in line with that of the previous year.

"Despite the backdrop of the economic climate, the public sector strike and operational challenges within the Group, our financial results for 2011 were excellent."

At this juncture, it is worth reiterating why the Group embarked on its diversification strategy some two to three years ago, and why it was essential that implementation of this strategy remains on track regardless of prevailing economic conditions:-

We live in changing times and a constantly evolving business environment. Both our major operating companies, Botswana Life and Bifm, dominate their market sectors. Both operate in markets that are becoming increasingly competitive. Adopting a purely defensive strategy designed only to protect market share would stultify growth and ultimately erode profitability.

We recognised that in this uncertain and difficult economic climate, we had to find innovative, effective and sustainable solutions to stay profitable. We had to move out of our comfort zones and think outside the box. We believe our diversification strategy enables us to spread the risk of doing business in these times across a broader range of operations.

Operationally and reputationally, the Group is stabilising. The threads of our new structure, designed to support the diversification essential to the long-term growth and sustainability of the Group, have been woven together into a resilient whole.

Our short-term insurance company is taking shape under the guidance of its first CEO John Haenen. It incorporates the Legal Guard business we acquired from Letshego Holdings Limited in 2009/2010, but will ultimately offer a full spectrum of insurance products to the market. We are confident that BIHL Sure! will quickly make its mark in the competitive short-term insurance industry.

Our venture into unit trusts is also taking shape, while our focus on property development as a key component of our investment portfolios is being sharpened. Both the established subsidiaries have put in new IT systems during the year with the aim of improving operational efficiencies.



Keeping up with technology is essential in order to innovate and offer client-centric services and is seen as an investment for the future.

At the same time, we have enhanced our working relationships with the various regulatory authorities that govern our operations. We take their advice into consideration, not just to comply with the law but to ensure that the businesses continually look after the best interests of all their stakeholders.

We also monitor anticipated future developments in the regulatory environment so that these can be taken into account in development of our strategies.

## Governance

Governance within the Group has been enhanced. We reconstituted the Boards in line with the recommendations and guidance of the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), to ensure greater independence of the Boards of the operating subsidiaries. As a result, each of the operating companies now has its own Board of Directors, consisting of both BIHL Board members and at least one additional independent non-executive director. Different BIHL Board members serve on the individual operational company Boards, ensuring greater focus and independence of those Boards.

At the same time, we reconstituted all various Board sub-committees and appointed a BIHL director as Chairman of the BIHL Investment sub-committee. Dr. Keith Jefferis, undoubtedly one of the leading economic intellectuals in Botswana, is therefore no longer Chairman of the Investment Committee. However, I am delighted that he remains a member of the committee and that his expertise and insights continue to make a valuable contribution to the Group.

We have also fulfilled our commitment to increase the number of independent non-executive directors on the Board with the appointment of Mr. Mpho Seboni. Mr. Seboni, a Motswana based in Johannesburg, is partner and director of Spencer Stuart who brings an international perspective with good local understanding to our Board.

## Appreciation

In what has been a challenging year, there are many whose support has been invaluable. Sanlam has proved to be a great strategic partner and works well with the Board, taking the advice of the local directors and management and providing invaluable guidance. Their technical expertise and support is sincerely appreciated. We look forward to even closer co-operation with them in the execution of our longer-term strategic goals.

There is no doubt in my mind that the excellent results achieved by the Group and the progress made in the implementation of its strategy would not have been possible without the incredibly hard work and commitment of every member of the BIHL Group's team from the Chief Executives, to management and staff. It couldn't have been easy to keep focused in the face of ongoing challenges and distractions. The fact that they succeeded is a testament to their resilience and strength. I extend my personal thanks, and that of the members of the Board, to each and every one of them.

Finally, my personal thanks go to the members of the Board. This dynamic group of people with their diverse skills, expertise and experience have shown a commitment to BIHL that goes above and beyond what one could expect from the conventional, average Board member ■

**Batsho Dambe-Groth**
Chairperson

# BIHL EXCO

**From left:-**

**Catherine Lesetedi-Letegele,** ***Botswana Life CEO***
BA: Statistics & Demography; AIISA, MDP

**Alicia Mokone,** ***Group Head of Information Technology***
MSc: Business Systems Analysis and Design

**Gaffar Hassam,** ***BIHL Group CEO***
FCCA; ACA (Botswana); MBA

**Elias Magosi,** ***Group Head of Human Resources***
BA: Economics & Statistics; PGD Management Services: FMS

**Tiny Matilda Kgatlwane,** ***Bifm CEO***
BCom (Accounting & Management); CMA

**John Haenen,** ***BIHL Sure! CEO***
Associate of the Chartered Insurance Institute, BCom (Economics, Organizational Psychology), Fellow of the Society of Risk Managers

# BIHL ORGANISATIONAL STRUCTURE


** Vacant position*



# BUILDING AND STRENGTHENING OUR FOUNDATIONS

2011 was a very difficult year in all respects – economically, financially and operationally. Despite these difficulties we succeeded in producing satisfactory financial results, exceeding our targets in many areas, and improving on the previous year's performance overall. Most importantly, we strengthened and built on the foundations that were laid for the Group's ongoing development and diversification.

*Gaffar Hassam, Group Chief Executive Officer*

## Life Insurance Business

The business performed very well with net premium income increasing by 9% to P1.74 billion while Operating Profit increased by 20% to P247.9 million. This performance was as a result of continued focus on client orientated products and service and good relationships with key partners.

One of the most unexpected challenges in the review period for the Group was the public sector strike. The announcement by Government in the 2012 budget speech that civil servants will not be receiving salary increments for a fifth successive year will further erode the spending power of a large segment of our traditional market and put the business under more pressure. Despite Botswana Life's dominance of the local market, there are still opportunities for growth. The business is currently revamping its business strategy in order to achieve our set goals and targets. The company has identified the need to broaden its distribution model. This includes growing and nurturing our bankassurance relationships with Standard Chartered, BancABC and Letshego. There is no doubt that these relationships contributed to the company's good results in the review period.

# GROUP CHIEF EXECUTIVE OFFICER'S REPORT

## Asset Management Business

Bifm, which was facing turbulence in the investment markets abroad, was also negatively affected by the sale of our majority stake in our Zambian business. The scaling was necessary in order to comply with that country's ownership regulations. This resulted in lower revenues for Bifm.

Property development continues to be a growth area for Bifm. Railpark Mall proved to be highly successful.

We anticipate that the Airport Junction Shopping Centre – launched in April of the current year - will be just as promising. These two important developments underscore the commitment Bifm and the Group have to making a positive contribution to the country's changing landscape.

As pressure on the operating companies mounted, the stark choice that they faced became increasingly clear. If new and innovative alternatives for growing their businesses were not found, these businesses were at risk of stagnation and decline. The latter is not an option. Botswana Life and Bifm are required to fuel the growth of the Group as a whole. They have accepted the challenge as can be seen in the reports of their respective CEOs, and are doing remarkably well given the prevailing circumstances in which they operate.

## Legal Guard

Legal Guard continues to contribute positively to the Group's results. Revenue increased by 35% from the previous year mainly due to good reception of the revised product range.

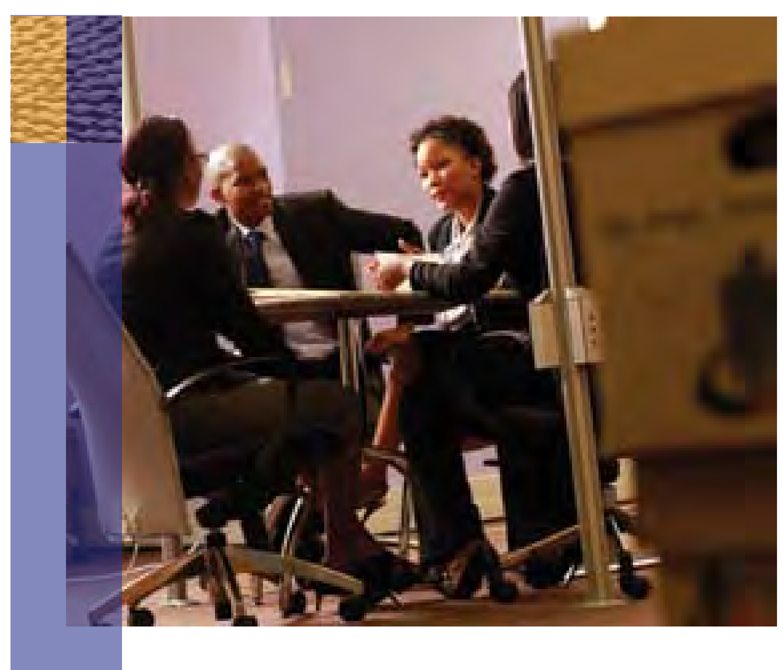
## Associate Investments

In line with the Group's strategy of being a broader financial services provider, a growth opportunity was identified in the area of unsecured loans. Our investigations of the loans market revealed that it would be more prudent to partner with those who have a deeper understanding of, and the infrastructure to deal with, this extremely complex market. We have therefore strengthened our relationship with Letshego Holdings Limited by increasing our stake in the company to 25.5%. The impact of this on our results for 2011 has been exceedingly positive.

The Group's investment in Funeral Services Group (FSG) also proved profitable in the current year as the Group distributes life insurance products through this business. The overall performance of FSG was positive to the BIHL Group.

## Technology

The BIHL Group needs to keep up-to-date with the latest technology developments to ensure that client service is superior at all times. Both Botswana Life and Bifm implemented IT systems to improve operational efficiencies and improve client services. There were challenges with the implementation of the much needed, and highly sophisticated, back office systems. As was to be expected, both experienced teething problems which, at times, inconvenienced our customers and put our staff under enormous pressure. We apologise unreservedly for this. However, issues have been dealt with as speedily as possible and the result has been a marked, and growing, improvement in client services. The full benefits of the new systems will become more apparent as the year progresses.





## OPERATING PROFIT

**PULA MILLION**

+12%

| | |
|---|---|
| 2011 | 316 |
| 2010 | 281 |

## Staff

Being in the financial services sector, our staff are a key asset to the business. Our staff had much to deal with in the review period, and I am proud to say they came through with flying colours. The importance of a well trained, highly motivated employee complement cannot be emphasised strongly enough. Going forward, our focus will be on enabling the personal development of every member of staff. This does not mean that we expect our people to attain a formal academic qualification - although some will have to study to move to the next level on their career path. Rather, we are working at empowering our people to do whatever is necessary to continually improve their own performance.

## Diversification and Growth

Perhaps the most important development for the Group in 2011 was the fact that our diversification strategy started to take shape. Two new businesses were introduced in Q2 of 2012;

(i) BIHL Sure!, a fully-fledged, wholly-owned, short-term insurance subsidiary. This general insurance company incorporates Legal Guard with its specialist legal protection product. While Botswana Life focuses on insuring individuals, this new company offers cover for assets such as motor vehicles, buildings and household contents. We will leverage the strong relationships that we have established over many years within BIHL Group, both with our partners and brokers as well as our clients who number more than 250 000, to drive the new business forward. Initially, Sure's focus will be on individuals and small businesses. This will be extended to the commercial sector at a later stage.

(ii) Bifm, too, has embarked on a diversification and growth strategy. We spent much of the review period preparing for the launch of our Unit Trust offering which falls within the Bifm fold. This is a tremendously exciting venture for us. Bifm's traditional market has been the corporate sector; our new Unit Trust products are aimed at the retail market. By leveraging Bifm's new platform and processes, we will be able to keep costs of the Unit Trust offering down while developing a new source of revenue for the company.

This platform will also enable Botswana Life to introduce flexible investment products to its policyholders.

The Group, in partnership with Sanlam, is also making substantial progress in laying the foundation for the roll out of our international strategy. We expect to see the first fruits of this in the current financial year.

## Appreciation

The year was a challenging one for me personally, having to take up the leadership reins at a time of tremendous change and uncertainty. It's been a steep learning curve for me but a deeply fulfilling one. It was made considerably easier thanks to the unwavering support received from everyone. My heartfelt thanks go to:

- our staff who worked tirelessly to help keep the BIHL ship moving forward;
- the management team who went above and beyond and showed tremendous leadership in difficult times;
- the Board and our main shareholder, Sanlam, for their advice and guidance;
- our partners for bearing with us and continuing to support us;
- the regulatory authorities for their support and understanding; and finally,
- our incredibly loyal customers who have believed in us and stayed with us through our lean times.

## Conclusion

I firmly believe that the Group has a solid foundation to take on future challenges. I am confident that our two established subsidiaries, Botswana Life and Bifm will continue to maintain their market share and profitability; that our two new ventures – short-term insurance and unit trusts - will start contributing to the Group in the current financial year. In addition, I hope that we will be able to make a real start on putting our international expansion strategy into effect during the current year. At the same time, we will continue to look for and identify new opportunities within Botswana, all aimed at securing the long-term future of BIHL ■

**Gaffar Hassam**
Group Chief Executive Officer

## Different Baskets and their Uses

The different types of baskets that are in use in traditional culture vary. For instance you may get flat baskets used for winnowing the chaff from the grain, or baskets with lids used to store grains for safe keeping. BIHL is similarly versatile because of its different business units. These various business units then afford BIHL the scope to deal with different business opportunities using the right basket, or resource. With the short term insurance unit, Sure!, BIHL is able to provide such products as home and car insurance within its wide range of services.

# 02

# Performance **during the Year**

Despite difficult economic conditions which put our clients under tremendous financial pressure, Botswana Life was able to increase operating profit by 20%. Total premium income rose by 9%.

These satisfactory results can be attributed to a combination of various factors including a stringent focus on cost management; the writing of profitable business; and an emphasis on underwriting techniques that allowed for well priced products to be offered to the market.

Several new interventions were launched to bring the problem of lapsed policies under control.

This included the introduction of new tools that would assist brokers to write better quality business. These tools will also provide a real service to clients and policyholders by ensuring that they purchase a product that they understand and that meets their needs. Internal challenges faced during the review period included the implementation of structural changes and the introduction of new IT systems. Both will play a key role in enabling the company's the three-year strategy which starts in the current financial year and ends in 2014.

Annuities significantly outperformed budget and prior year. This line is expected to grow exponentially going into the future despite difficulties in finding matching assets to back liabilities; and the emerging risk of longevity which will require different types of products to support policy holders through longer retirement periods.

Individual Life's recurring premium income outperformed that of the previous year by a satisfactory 9% although we were unable to achieve our targets in terms of new business. Credit Life and Bancassurance did well as did Group Life and Funeral despite significant competitive pressure.

Looking ahead, while changes to the regulatory environment will result in general tightening up of the sector, the impact on our business is likely to be confined to our distribution activities.

We also anticipate new business profitability to improve significantly by 2014 given the emphasis on quality business and client retention in our new Sekgantshwane 2014 strategy ▪

# ***Focusing* on quality**
## business and client retention

BOTSWANA LIFE

# MANAGEMENT

**From left:-**

**Jaco van Loggerenberg**
BA: Law, MBL

**Thomas Masifhi**
Certificate in Teaching, COP, Diploma in Marketing Management, MDP

**Linah Sekwababe**
BA: Social Sciences, MSc in Business Systems Analysis and Design

**Catherine Lesetedi-Letegele,** ***Botswana Life CEO***
BA: Statistics & Demography; AIISA, MDP

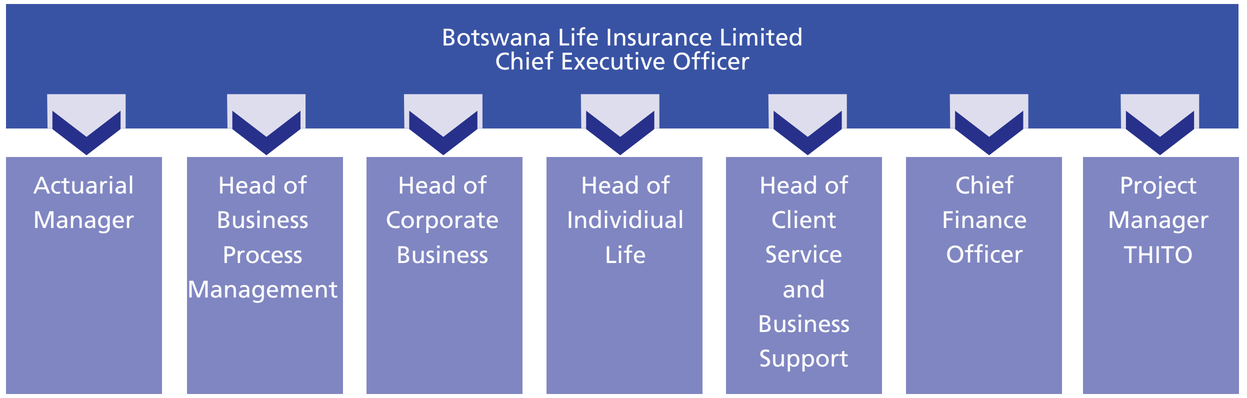
**Lorato Mosetlhanyane**
BCom (Accounting), FCCA, MBA

**Joseph Kuaho**
BA: Statistics, COP, MDP

**Kathiresan Subburaj**
MBA (Technology Management), BA: Business Administration, COP

***From left:*** *Jaco van Loggerenberg, Thomas Masifhi, Linah Sekwababe, Catherine Lesetedi- Letegele, Lorato Mosetlhanyane, Joseph Kuaho and Kathiresan Subburaj*

# ORGANISATIONAL STRUCTURE



BOTSWANA LIFE INSURANCE LIMITED CHIEF EXECUTIVE OFFICER'S REPORT

# AN EXCEPTIONAL YEAR FOR BOTSWANA LIFE

*Catherine Lesetedi - Letegele, Botswana Life Insurance Limited Chief Executive Officer*

The year 2011 was an exceptional one for Botswana Life, despite tight and volatile economic conditions during the course of the year. Some lines of business comfortably outperformed their budgets while others experienced challenges. Tight economic conditions and declining household incomes posed a challenge to the organisation, affecting the achievement of new business targets on the individual life business line.

Nevertheless, operating profit rose by 20%; a satisfactory result considering the prevailing circumstances. This achievement is attributable to a number of factors: our success in our cost management efforts, which kept our expenses well below the prevailing inflation rate; our focus on writing profitable business; and most importantly, our underwriting techniques which continued to serve us well as we benefited from well-priced products. Total premium income rose by 9%, driven mainly by the Annuity business line. Internally, we also faced some challenges, the greatest being the issue of lapsed policies, which was aggravated by the prevailing economic conditions. We launched several new interventions in 2011, aimed at managing lapses and bringing them under control.

Following an investigation into the overall situation around lapses, we segmented the market and we are now targeting the different market segments with different products taking into account the propensity of individuals to lapse their policies before the end of the term. We believe that with time we should benefit from this segmented approach. It is important to mention that this approach could result in a decline in business in the immediate term, but will bear fruit in the medium to long term.

We also introduced two new steps in the sales cycle to assist brokers to write better quality business: a needs analysis form and a record of advice form. This will not only

# Operational Review

benefit Botswana Life and our brokers, but will also provide a real service to our clients and policyholders. It ensures that they purchase a product that they understand and that meets their needs. The immediate effect of introducing needs analysis however, has been a lengthening of the time taken to close a sale, though we are confident that these interventions will lead to a happier customer base and a long term reduction in policy lapses.

Two additional internal challenges faced during the review period were the implementation of structural changes and simultaneously, the introduction of new IT systems which went live in October.

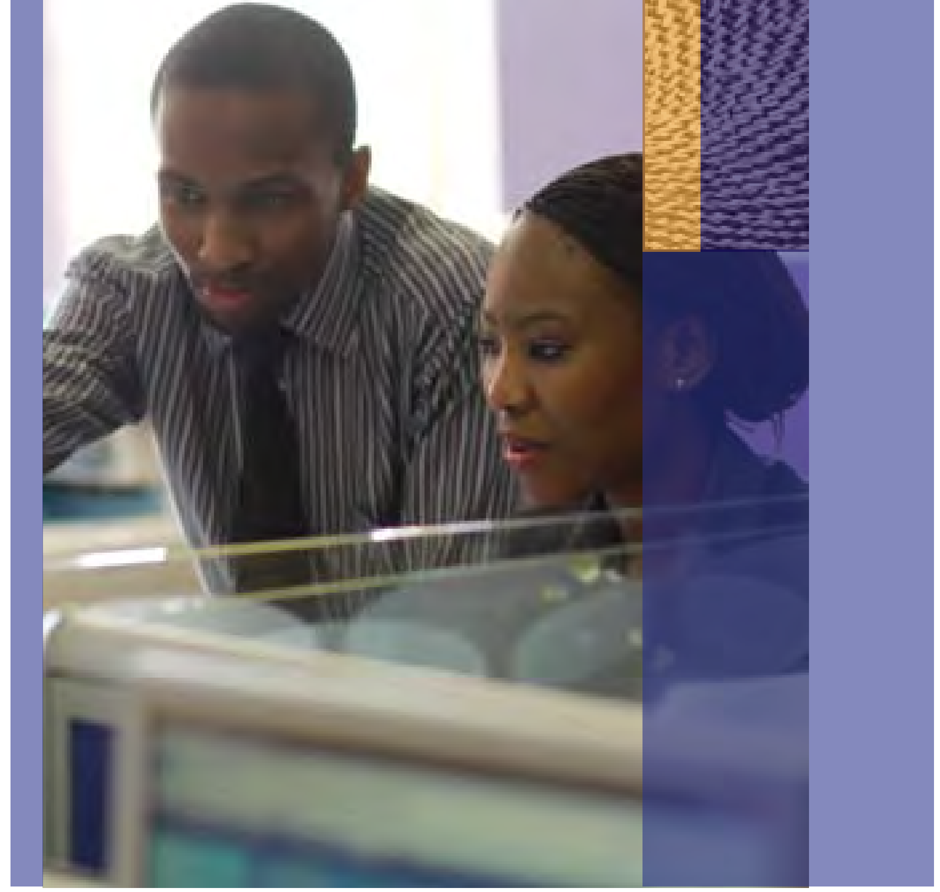
Both processes were, however, absolutely essential in laying the foundation that will be required to move the business forward. Botswana Life must be a company that is driven and enabled by technology. In order to run efficiently and improve customer service, we have to automate our processes.

It is our intention that the system is easier for brokers to use, and that it will speed up the entire client service experience; it will shorten service turnaround times. We expect to have more efficient processes as we fully embrace the system and do more with less.

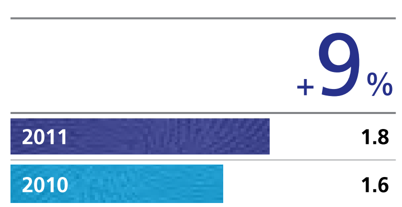
I have every confidence that the system will underpin and enable our three-year strategy which starts in the current financial year and ends in 2014.

## Annuities

While there was much that created challenges and difficulties for us in 2011, there were also positives. We experienced significant benefits from the reduction in the retirement age for public service employees. This is particularly in terms of our annuity line, where we significantly outperformed budget and prior year. This line



PREMIUM INCOME
PULA BILLION




continues to grow and is expected to grow exponentially going into the future.

Whilst the future looks bright for annuity sales, this business line is not without challenges. It is common knowledge that many insurance companies the world over have been burnt and faced near collapse by failing to manage annuity risks appropriately. Fundamental to writing volumes of annuity risk, is the ability to find matching assets to back these liabilities, and the ability to manage credit and reinvestment risks in order that we can meet our obligations to annuitants.

Our biggest challenge is finding the required matching assets, and regrettably we face a serious market constraint as Botswana does not have much available in the way of long-dated bonds. Another emerging risk to the annuity line is the risk of longevity. Basically this is the risk of living longer than expected, and a phenomenon that is common in developed countries. This requires us to find assets which are even longer dated bonds than our current requirements which, as mentioned, are not readily met.

The emergence of longevity as a risk is a great tribute to the success of the government-led ARV programme, though it also means that companies like Botswana Life need to allow for paying benefits to clients for longer periods.

Having to deal with longevity rather than mortality is nonetheless an exciting challenge. It paves the way for an entire new debate and new opportunities. As life expectancies increase, people will seek different products to support them through longer retirement periods. Our challenge will be to develop these and bring them to the market quickly.

## Individual Life

Declining household incomes put this line of business under tremendous pressure as people had more pressing financial considerations and tighter personal budgets. Despite this, our recurring premium income outperformed that of the previous year by a satisfactory 9%.

However, we were unable to achieve our targets in terms of new business. This, of course, is of concern. The lapsing of policies was also a concern as it impacts both the current book and future profits.

## Credit Life and Bancassurance

Our Credit Life line did well, although our biggest client was impacted by the public sector strike. While our partnership with Barclays was terminated, we were able to acquire a new partner in BancABC, which has recently moved into the retail arena. The contract with BancABC was extremely timely in terms of our business direction.

## Group Life and Funeral

As expected, this line of business has been under significant competitive pressure. We anticipated this trend several years ago when we made a conscious decision not to chase after unprofitable business for the sake of maintaining or growing market share. The excellent financial performance of the Group Life business is a clear justification of that decision.

Our funeral products also performed well during the review period. We continue to be relevant in our product offerings and therefore dominate this market.

> "It is common knowledge that many insurance companies the world over have been burnt and faced near collapse by failing to manage annuity risks appropriately."

# BOTSWANA LIFE INSURANCE LIMITED CHIEF EXECUTIVE OFFICER'S REPORT

Our low-end Mosako funeral plan, aimed at the unbanked and under-banked sector of our population, continues to do well. Sales and premium collections remain conducted through our partnership with our Agents, Botswana Post and our contact centre. We are seeing average month-on-month premium income growth of around 40% from this product. Our immediate goal is to make it more convenient for our clients to pay their premiums by enabling payments through mobile money.

## Client Service (contact centre)

In 2009 we rolled out the contact centre to add convenience to our already existing branch infrastructure. We are quite pleased with the take up rate: in 2010 and 2011, we received over 120,000 calls from our clients.

We found it fitting to start a campaign in the last quarter of 2011 in which we advertised our contact centre and encouraged the public to use it and save themselves time and money by getting service from the comfort of their homes and /or offices.

> "We continue to receive very good feedback on how the contact centre has added convenience for most our clients as well as feedback on areas where we can improve."

### OPERATING PROFIT

**PULA MILLION**

+20%

| | |
|---|---|
| 2011 | 247 |
| 2010 | 206 |

In 2012, we will be working on ensuring that calls logged result in instant resolution of issues. We continue to receive very good feedback on how the contact centre has added convenience for most of our clients as well as feedback on areas where we can improve.

## Looking ahead

We recently launched a new strategy: Sekgantshwane 2014. Working towards this, our theme for 2012 is "clean out and stabilise". This encompasses several dimensions: improving lapse management; engendering a new culture of excellence customer responsiveness; ensuring a smoother and more sustainable approach to obtaining new business; and ensuring that all the people who represent our company, from our brokers to our branch managers and employees, have the utmost integrity.

We are also keeping a watchful eye on the changing regulatory environment. While the details of what will be required, and when changes will take effect, is not yet known, we anticipate a general tightening up of the sector. We do not anticipate a significant impact on our business from a finance and actuarial perspective, but rather on our distribution activities. We have already actively prepared for the implementation of the Prudential Rules and we are well prepared to assist our distribution partners.

On a more global level, the effect of the introduction of the Prudential Rules, particularly the levies, Policy Protection Rules and Intermediary Rule,s could result in consolidation, particularly in the intermediary space. There is a proliferation of brokers and many of them are unlikely to be able to comply with the new regulations. This is not necessarily bad for the industry though, as better regulation is necessary and ensures only the best players will survive and, furthermore, will result in a more professional market as well as improved value to consumers of insurance products.

In the short to medium term, I am confident that Botswana Life will be well on track to achieving our Sekgantshwane 2014 goals. This includes having bedded down our new systems and deriving more value from these systems, with better service turnaround times. I believe that we will achieve better communication with our clients and we will have a new, invigorated customer-responsive culture in place. We expect our new business profitability to improve significantly by 2014 given the emphasis on quality business and client retention.

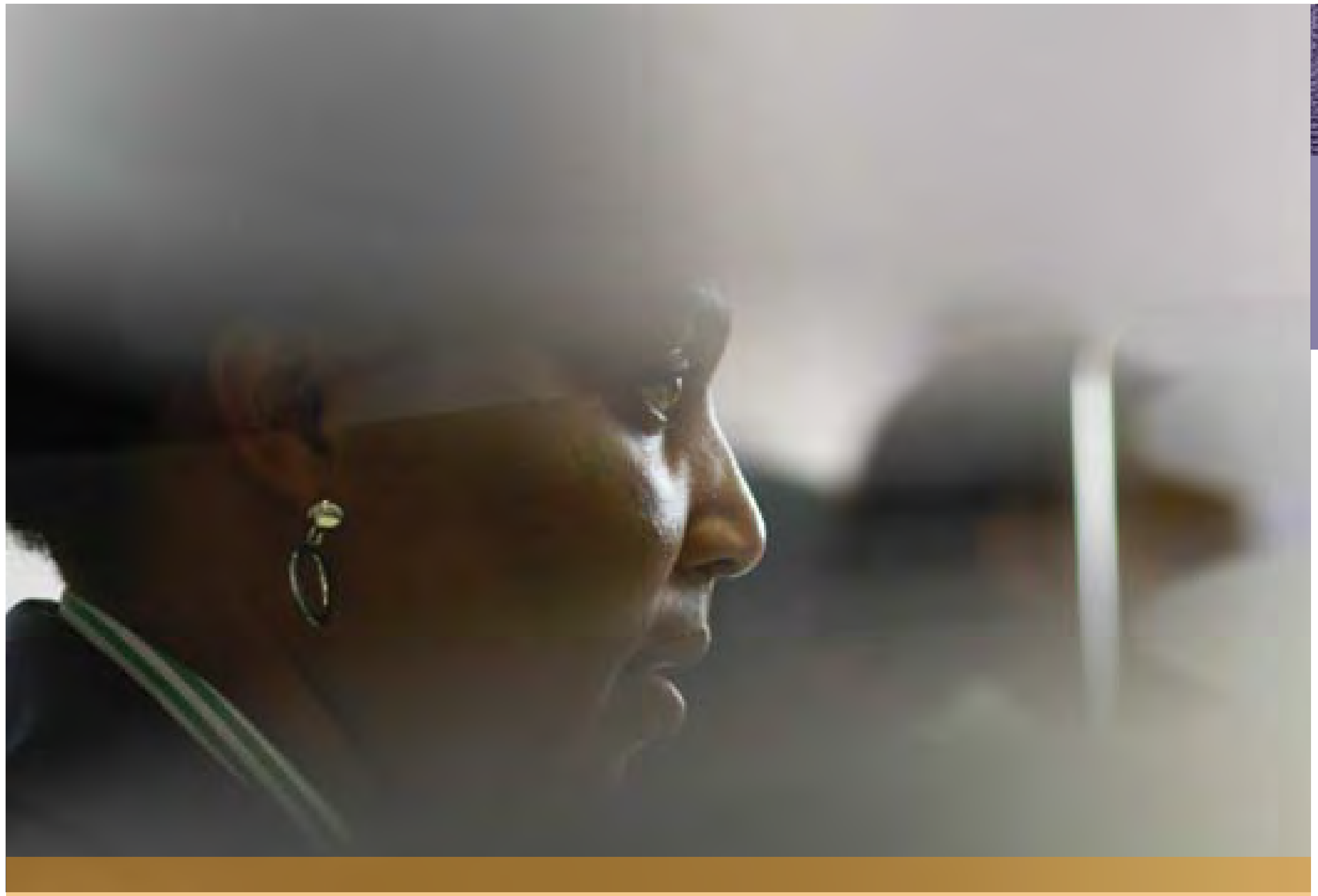
My thanks and appreciation go to all the members of the Botswana Life team who have come through an extremely difficult year with flying colours. We are all eager and well prepared to tackle the challenges that lie ahead with enthusiasm and dedication ■

**Catherine Lesetedi-Letegele**
Botswana Life, Chief Executive Officer

CASE STUDY

# SEKGANTSHWANE

In the fourth quarter of 2011, Botswana Life launched a bold and exciting new corporate strategy themed Sekgantshwane 2014. This strategy was borne out of a realisation that the business environment is no longer accommodating to the current order of business at Botswana Life.



***Sekgantshwane 2014,*** *a strategy that aims to strengthen Botswana Life's position in the market and create a launching pad for future growth.*

The company has not been spared from the prevailing tight economic conditions. The life insurance industry has also seen increased competition with new players in the last few years, as well as a changing regulatory framework. These, and internal factors such as a deteriorating lapse experience and growing unit costs, which have a direct impact on profitability, prompted the development of Sekgantshwane 2014, a strategy that aims to strengthen Botswana Life's position in the market and create a launching pad for future growth.

Sekgantshwane 2014 is all about being responsive to our customer needs, continuing to create for them a meaningful value proposition. We are thus going to be modernising our product offering to be in line with our customer expectations.

The strategy promises to take Botswana Life to a whole new level of success during the next three (3) years. The expectation is that, come 2014 Botswana Life will have a customer responsive culture, the best products – fit for purpose, new avenues of growth and will be the benchmark in the local and regional insurance industry. The following three (3) themes will guide us:

- 2012: Clean out and stabilise
- 2013: Experience new growth
- 2014: Compete with the best of the best

**2012 – Clean out and stabilise**

In 2012, we will focus on enhancing the robustness of our internal systems and processes in order to bring our lapses under control, improve unit costs, reap the benefits of Thito and improve our responsiveness to customer needs. Underpinning this theme is a paradigm shift relating to our customer responsiveness which we recognise as needing serious attention.

**2013 – Experience new growth**

In 2013, we will see the seeds planted in 2012 start to grow. At this stage, Botswana Life envisions to be having a refreshed brand, selling new exciting products to the market and having a positive service culture.

**2014 – Compete with the best of the best**

In 2014, Botswana Life will be the benchmark life insurance business locally and regionally, re-defining its already existing market leadership position. We will have diversified income streams, be technology driven with effective systems in place, have an innovative, service-driven culture and most importantly, satisfied, loyal customers.

Sekgantshwane means being a shining example; being the best of the best. This strategy is an exciting new challenge for us and we look forward to the next three (3) years with enthusiasm!

Implementation of BIHL's short term insurance initiative began in April 2011, building on the 2010 acquisition of Letshego Holdings Limited's licence legal expenses insurer, Legal Guard.

Legal Guard had a satisfactory year in 2011, increasing revenues by 35% and successfully implementing strategies to contain claims costs. A new high-end product was introduced to complement the company single, highly specialised product.

Now renamed BIHL Insurance Company (BIHL IC), which is trading as BIHL Sure!, the new initiative's focus is on providing individuals and small businesses with cover for their personal and business assets.

The company successfully met all project milestones by the end of 2011, including the sourcing of an exceptionally sophisticated computer system capable of delivering a level of customer service currently unmatched in Botswana.

Despite difficulties in recruiting suitably qualified staff, the company was able to fill all top managerial positions and make satisfactory progress towards completing the next layer. Development of human resources will be a key priority going forward.

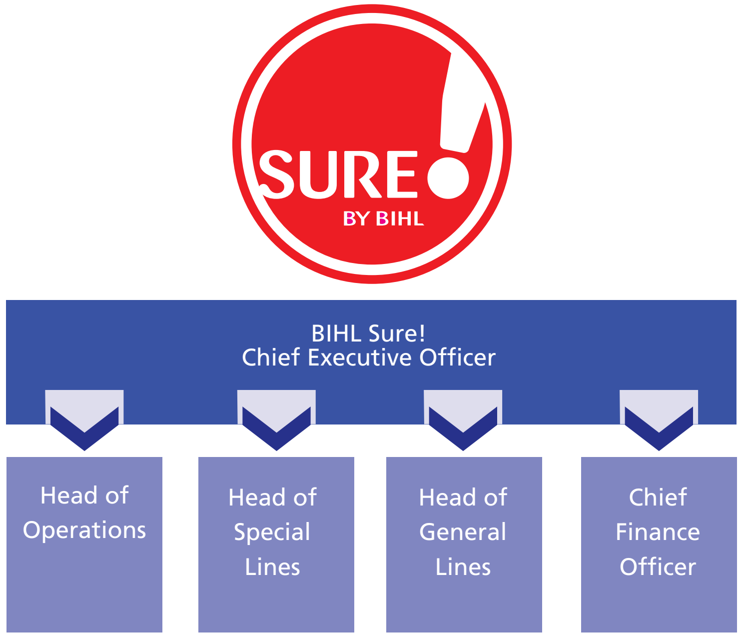
Taking cognisance of the fact that BIHL Sure! is a new company that will only be operational for part of the current financial year, targets for 2012 are relatively modest. Thereafter BIHL Sure! is expected make a growing contribution to the Group's bottom line ▪

***Moving* forward**
with our strategy

# MANAGEMENT

*From left: Douglas Heldsinger, Benjamin Tobedza, John Haenen, William Mujuru and Ofentse Mabote*

# ORGANISATIONAL STRUCTURE




**John Haenen,** ***BIHL Sure! CEO***
Associate of the Chartered Insurance Institute, BCom (Economics, Organizational Psychology), Fellow of the Society of Risk Managers.

**William Mujuru**
Fellow IISA, MBA, Bcom Risk Management, Associates IISA, Higher Certificate in Insurance.

**Douglas Heldsinger**
Fellow IISA, Management, Associate IISA, Chartered insurer

**Ofentse Mabote**
BA Accounting & Economics, ACMA, ACA (Botswana), CGMA

**Benjamin Tobedza**
BCom, Master of Business Finance



# BIHL SURE! CHIEF EXECUTIVE OFFICER'S REPORT

## The Group made a decision to enter the short-term insurance market some 3 years ago.

The rationale was to complete the insurance offering of Botswana's largest financial services provider.

*John Haenen BIHL Sure! Chief Executive Officer*

# BIHL SURE! CHIEF EXECUTIVE OFFICER'S REPORT

*BIHL Sure! is an insurance company tailored to be in tune with modern life styles of many Batswana*

The development and implementation of the Short Term Insurance (STI) initiative - a strategy for the launch of Botswana's newest, and most innovative, short-term insurance company - began in earnest in April 2011. Leading up to this point, the Group had in 2010 acquired from Letshego Holdings their limited licence legal expenses insurer, in order to use that established business as a core for the full short-term operation. At that stage, Letshego Guard had only a single, highly specialised product – Legal Guard.

The Legal Guard business, which was re-named BIHL Insurance Company in 2011, continued full operations during the year, facing a number of new external challenges. Chief amongst these were the withdrawal of payroll deduction facilities for Government employees and a dramatic change in claims patterns that impacted strongly on the underwriting margin. Nevertheless the business had a satisfactory year in 2011, increasing its revenues by a market-beating 35% and successfully implementing strategies to contain claims costs. A new high-end product was introduced and received a good reception in the market; the result is that Legal Guard remains the dominant legal expenses insurance provider in Botswana by a very wide margin.

The reported results of the Legal Guard operation were sharply down in 2011. This change was largely due to the revision of accounting practices and the early adoption of reserving methods that will become necessary in terms of Non-banking Financial Institution Regulatory Authority (NBFIRA's) move towards implementation of Solvency II standards. In addition, the business absorbed the significant project costs of the STI initiative.

Management is satisfied with the performance of the business in 2011, and is confident that the structural and operational changes made during the year will reflect positively on performance in 2012.

The STI Initiative had successfully met all project milestones by the end of 2011. The most important of these was the sourcing of a computer system capable of providing a level and extent of services to the company and its customers that exceeds what is presently available to the market. The identification process took some four months to complete and resulted in the acquisition of a system whose vendor has an impeccable track record and an established footprint in Africa.

Although the process of system identification and specification was time-consuming and costly it has resulted in the company being able to deploy short-term insurance technology and processes that are considerably ahead of anything else currently in use in Botswana, and are more than equal to the technologies used by insurers elsewhere in Africa.

Developed in Jordan, this technology will enable us to deliver an unrivalled level of customer service. It will make short-term insurance services accessible via internet or mobile phone at any time of the day or night and from virtually anywhere in the country. This has implications for individuals who wish to manage their own policies and claims, but just as importantly it will allow brokers and agents to directly control their portfolios placed with the company. Both the system and the insurance products it drives have been constructed in such a way that they are easier to understand and to use.

Applications and claims will be processed in a fraction of the time brokers and consumers currently experience. The risk of fraud, moreover, will be significantly reduced due to stringent management mechanisms.

Sourcing suitably experienced and qualified staff was a more serious challenge for the initiative, since the labour market in Botswana is limited and highly competitive.

*A world class insurance company that keeps pace with your busy life; BIHL Sure! is backed by technology that exceeds what is presently available in the local market*

Nevertheless by year-end all key positions had been filled and satisfactory progress made towards completing the second layer. With this in mind, the company will in future allocate significant importance to extending and developing the human resource capital of the company.

Most importantly for the new operation, BIHL Sure! has the advantage of being part of the BIHL Group. Apart from this imparting all-important financial strength and stability, the Group has an unmatched geographical footprint across Botswana, as well as a large, loyal corps of brokers and agents. The combination of this strong financial and physical presence will enable BIHL Sure! to reach the broadest possible customer base and satisfy the security requirements of even the largest buyers.

The company's initial focus will be on providing individuals and small businesses with cover for their personal and business assets, but will have the ability and capacity to provide for very large and complex risks as well.

In order to give BIHL Sure! the space and time it requires to settle, its targets for the 2012 year are relatively modest. This is especially so as the company will only be operational for part of the financial year.

We anticipate that BIHL Sure! will make a sizeable and growing contribution to the Group's bottom line thereafter.

**John Haenen**
BIHL Sure! Chief Executive Officer

2011 was a challenging year for Bifm. The tough economic environment and higher than normal operating costs stemming from the introduction of essential new systems, led to operating profits for the group declining to P46,4 million from P70,2 (34%). Profit before tax was P97 million, a decrease of approximately 12%.

Assets under management grew, albeit modestly, by 1% to P17.8 billion. Having focused most of our attention inward for the past year, Bifm can now implement its growth strategies for the future with confidence. The company was restructured in 2011 with the aim of improving financial controls over internal operations as well as providing more opportunity for focus on subsidiaries.

From an asset management perspective, 2011 was a traumatic year. The domestic part of the portfolio performed well but, internationally, Bifm's underlying managers turned in disappointing performances. Nevertheless, the year's income from asset management activities increased slightly.

Bifm's diversification into property development continued during 2011. Railpark Mall was opened to the public and is starting to deliver on anticipated returns. The Airport Junction Shopping Centre development also took shape and officially opened in April 2012, providing another excellent source of annuity income.
Subsidiaries

The company reduced its shareholding in its Zambian operation, Aflife Zambia to 49% in compliance with the Zambian authorities' regulations relating to the local ownership of asset management companies. At the same time, Aflife's property development arm was incorporated into a new property development and management company, Quantum, in which Bifm is the majority shareholder. Khumo Property Asset Management was significantly impacted by a Turnstar Holdings decision to take the management of its property portfolio in-house. The company has therefore been restructured to ensure its ongoing sustainability and viability.

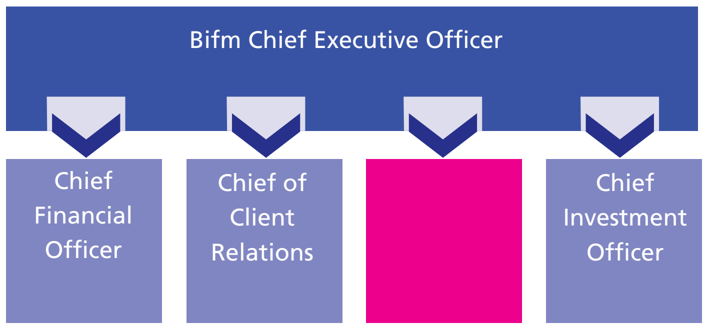
The required structures and processes are in place for a unit trust/collective investment initiative which is to be launched in the current financial year but any significant impact on the Group's bottom line will take some time to materialise ■

# ***Building*** **a solid** platform for the future

# MANAGEMENT

***From left**: Moipone Lopang, Kebagaise Keedo Segakise, Tiny Matilda Kgatlwane and Neo Bogatsu*
***Not in picture**: Stephen G. Mills*

# ORGANISATIONAL STRUCTURE




**Tiny Matilda Kgatlwane**
BCom Accounting & Management, CIMA, Associate of Botswana Institute of Bankers

**Neo Bogatsu**
BCom (Accounting), FCCA, MBA

**Kebagaise Keedo Segakise**
BA: (Accounting & Economics), CIMA, PGD Accounting & Finance, PGD Strategic Management

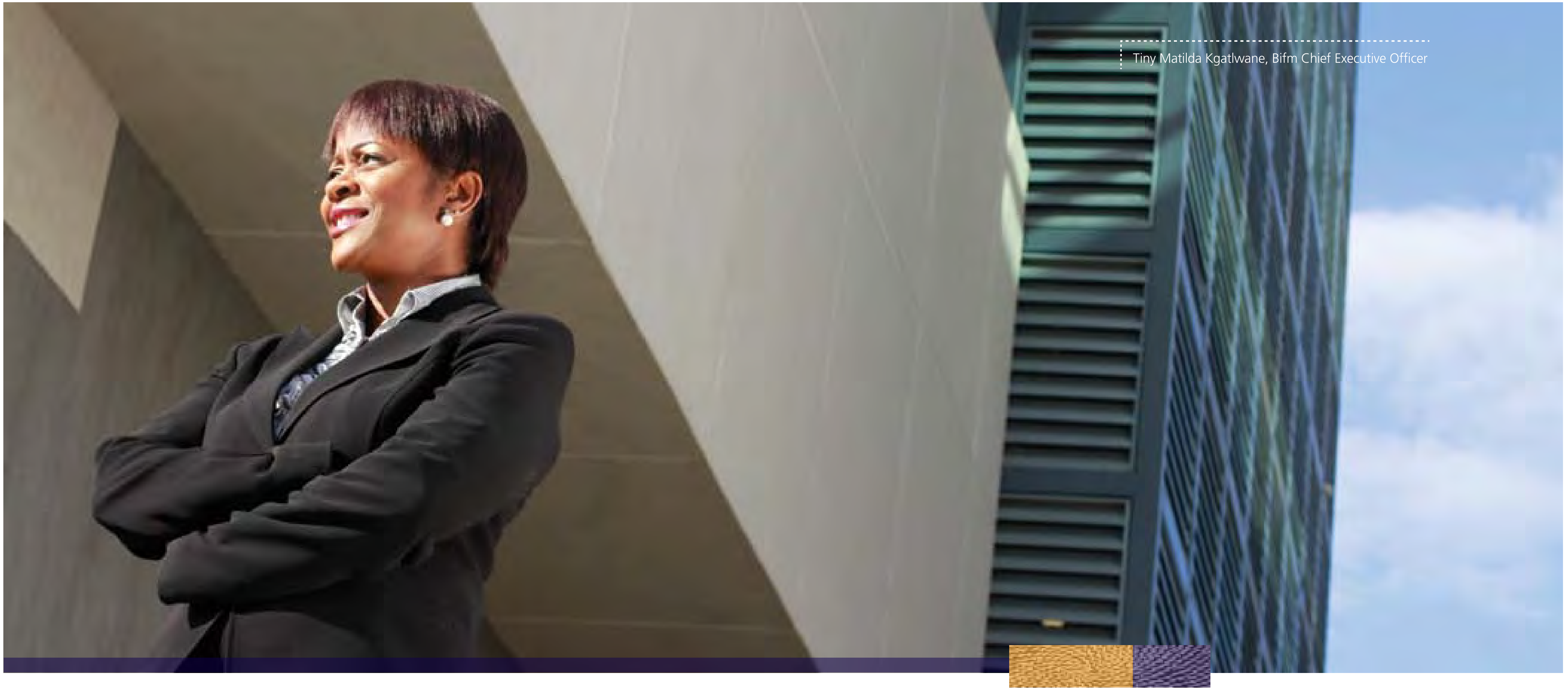
**Moipone Lopang**
BCom (Economics), Post Graduate Diploma, Corporate & Securities Law

**Stephen G. Mills**
BSc (Engineering), BCom (Honours), MBA

Bifm CHIEF EXECUTIVE OFFICER'S REPORT

# A relook at our strategy,

refocus our priorities and ensure we were on the right track to take the company forward.



# Bifm CHIEF EXECUTIVE OFFICER'S REPORT

*During challenging economic conditions Bifm continued to give stakeholders value through a combination of innovative strategies, sound fiscal management and highly motivated employees.*

2011 was a challenging year for us. This was mainly due to the global economic downturn and depressed international markets. Additionally, we were undergoing significant operational changes and instituting new systems. Under new leadership and overwhelming circumstances, the team managed to cope impressively well. The favourable financial results are a testament to the team's hard work and dedication to the company.

In addition, we were able to relook at our strategy, refocus our priorities and ensure we were on the right track to take the company forward.

## Financial results

A major event in the review period was the sale of 21% of our shareholding in our Zambia operation, Aflife. This reduced our shareholding to 49% in compliance with the Zambian authorities' regulations relating to the local ownership of asset management companies.

As part of that transaction, which took effect in March 2011, we separated Aflife's asset management operations from its property development arm. This was absorbed into a new property development and management company, Quantum Assets Zambia Limited. Bifm has a 70% share in Quantum Assets Zambia Limited.

Parallel to that, the depressed international markets resulted in our income from investments dropping. This combined with the higher than normal operating costs stemming from the introduction of essential new systems, led to operating profits for the Group declining to P46,4 million from P70,2 (34%). Profit before tax was P97 million, a decrease of approximately 12%.

Despite the volatile financial markets and the unsatisfactory performance of our international managers, assets under management grew, albeit modestly, by 1% to P17.8 billion.

## Systems

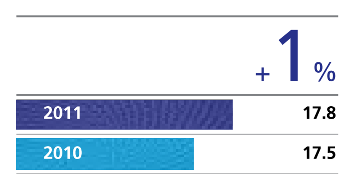
The company was restructured in 2011, separating the finance and operations departments. This adjustment was made with the aim of improving our financial controls over internal operations as well as giving us greater room for focus on our subsidiaries.

Two key initiatives were undertaken internally. These provided us with a solid platform on which to build for the future.

It is evident that competition is increasing, thus we have to be extremely responsive to our clients and their needs. This includes being able to provide them with comprehensive reports and information as quickly and proactively as possible. This new system will enable us to focus on our core activities. Some initial teething problems with the system have been resolved and it is starting to produce the expected improvements in the quality of our reports within faster turnaround times.

**ASSETS UNDER MANAGEMENT**

**PULA BILLION**




*Despite the volatile financial markets and the unsatisfactory performance of our international managers, assets under management grew, albeit modestly, by 1% to P17.8 billion.*



## Listed Investments

From an asset management perspective, 2011 was a traumatic year. While the debt problems of the European periphery were coming to a head, these concerns were compounded in the third quarter by growth fears of a slowdown in the US. At the same time, the much vaunted developing BRIC countries – Brazil, Russia, India and China, were putting brakes on their economies in order to deal with inflationary pressures.

As a result of all this uncertainty, there was a collapse in the global risk trade as all risk assets were progressively sold off. This led to the biggest sell-off since the early nineties in the third quarter. However, things reversed rather suddenly in the fourth quarter; the risk trade revived and global equities rose.

This volatility was offset by a fairly stable debt capital and equity market in Botswana which remained solid until the fourth quarter when a sudden reversal occurred.

The emerging markets and the development markets ended the year in the red, down some 18% and 5% respectively in dollar terms. The local Botswana market, however, ended the year on a positive note in dollar terms.

Inflation in Botswana, however, remains a concern. The headline inflation number is around 9%, making it difficult to produce positive returns for our investors. The only real way to start addressing this is to put more risk into the portfolio. With that, though, comes commensurate short-term uncertainty as there is no investment that offers a risk-free real return.

Another challenge in the review period was the unexpected announcement by the Bank of Botswana cancelling the BOBC's facility. While this was the start of a sound process to normalise the capital markets in Botswana, the sudden move is expected to cause havoc in the local money market. Call dropped to zero literally overnight and three-month deposits fell to around 3%.

This was the background against which we had to manage our portfolio. The domestic part of the portfolio performed well but, internationally, we were badly let down by our underlying managers whose stock picking was disappointing. We nevertheless ended the year with income from our asset management activities slightly up from the previous year.

We are currently looking at interventions to address the challenges we experienced in the review period while maintaining our commitment to an investment philosophy that favours capital protection.

## Unlisted Investments

**Property**

An exciting development in the review period was the opening of the Railpark Mall in October. The development is owned by Bifm and Botswana Railways, and is managed by Khumo Property Asset Management. The Mall is already starting to deliver on anticipated returns for the company.

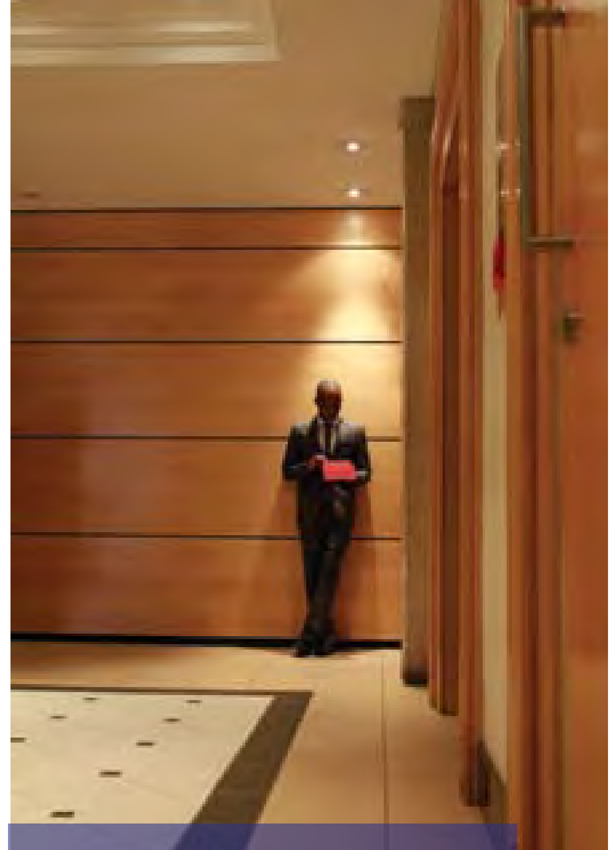
The Airport Junction Shopping Centre development also took shape during the year and officially opened in April 2012, providing another excellent source of annuity income. Both these developments underscore Bifm's commitment to continuing to make a solid contribution to the changing Botswana skyline, while investing in projects that will deliver solid returns to our investors.

We are constantly looking for more opportunities in the property market as we believe this diversification strategy will add considerably to the future growth of the company. Building on our investment in Quantum, Zambia, property could provide the foundation for the Group's proposed African expansion.

"The emerging markets and the development markets ended the year in the red, down some 18% and 5% respectively in dollar terms. The local Botswana market, however, ended the year on a positive note in dollar terms."

# Bifm CHIEF EXECUTIVE OFFICER'S REPORT

*Property could be part of a solid foundation from which the Group may consider further expansion into other exciting African markets.*



## Subsidiaries

**Khumo Property Asset Management**

Khumo PAM, a Bifm and Eris Properties joint venture, was largely restructured during the review period following the decision by Turnstar Holdings to take the management of its property portfolio in-house. This had a significant impact on Khumo's operations and profitability. We are working closely with Khumo Management to find ways to reduce costs, improve efficiencies and ensure their rates are better aligned with the market.

**KYS**

KYS, a shareholder in Gaborone Sun, was negatively affected by a decline in occupancy rates and increasing competition in the market.

**Bifm Capital**

Bifm Capital has been involved in an ongoing legal dispute with Botswana Building Society and we await the outcome of the proceedings.

*Khumo PAM has been positioned as a property asset management company of choice through involvement with two high quality retail developments*

## Looking ahead

We have been working on putting all the required structures and processes in place for our unit trust/collective investment initiative. This is to be launched to the market in 2012.

While we do not anticipate significant returns initially, we believe the initiative will contribute to Bifm's longer-term profitability. Another initiative that is slowly taking shape is our venture into the private equity space. It is still too early to provide details of this, but our intention is to grow this area as yet another alternative income source.

*Winning the BPOPF Property Fund tender is part of a strategy to diversify our revenue stream.*

We will also be devoting more attention to our unlisted activities and to our offshore strategy as these are areas that offer the greatest potential for growth. I am happy to say that Bifm, along with its local partners, won the Botswana Public Officers' Pension Fund (BPOPF) Property Fund Tender to the value of P250 million. This will help to diversify our income stream. At the same time, we have worked extremely hard to deal with the challenges facing our investment department. These are being resolved and we anticipate that the benefits of our efforts will become increasingly apparent in the current year and beyond.

Despite the difficulties experienced in the review period, I am satisfied that having focused most of our energies inward for the past year, we can now implement our growth strategies with confidence.

## Appreciation

My first vote of thanks must go to our loyal and understanding clients who exercised the utmost patience as we bedded down our new systems. I am confident that their trust in us will not have been misplaced. I would also like to thank our management and staff, who went above and beyond the call of duty at times, throughout what was the most challenging year most of us had ever faced. Your efforts are sincerely appreciated. I would like to extend my thanks, too, to the Board for supporting us through this difficult period. I am also pleased to welcome the appointment of our new Bifm Board of Directors – Chairman Chandra Chauhan; Francois Kellerman; Thomas Schultz and Mahube Mpugwa. Our initial meeting was a clear indication that their increased focus on our operations will be hugely beneficial to the company.

Finally, my sincere appreciation goes to the Bifm Exco for helping steer Bifm through what was undoubtedly an exceptionally difficult year. Exco have provided invaluable guidance and support to the Bifm team.

I believe that we have all emerged from 2011 far stronger, and that the results of our efforts will become increasingly apparent as the future unfolds ■

**Tiny Kgatlwane**
Bifm Chief Executive Officer

CASE STUDY

***SADC HEADQUARTERS***

*SADC Headquarters was the second Public Private Partnership awarded to Bifm and its consortium partners. SADC Headquarters which is located in Gaborone's new CBD houses the secretariat and was delivered on budget and on time.*

***RAILPARK MALL*** *This is one of two major retail developments in Gaborone managed by Bifm's property asset management company subsidiary, Khumo Property Asset Management. The site of Railpark Mall is on BR Properties owned land linking the central transport hub of Gaborone's bus and taxi ranks.*

***OFFICIAL OPENING OF RAILPARK MALL***

*Botswana's Vice President, Mompati Merafe (flanked by The Honourable Nonofo Molefi, Minister of Transport and Communications ) cuts the ribbon at the official opening of the P350 million Rail Park Mall.*

## Diversification and Growth

As an asset manager with a 37 year track record in Botswana's history, Bifm has long used Property Development as one of the asset classes to diversify its portfolio. Historically Botswana has been known as a market that has few investment avenues particularly with the low liquidity of the Botswana Stock Exchange. Apart from the many other asset classes that Bifm has, property is one of the key pillars within the diversification strategy that has borne healthy fruits for its clients.

The initial property investments that Bifm made were into shopping malls based in Maun, Francistown and Gaborone. These investments subsequently issued such good returns causing the Business to actively seek other projects. Bifm bought a sizable amount of property in the Fairgrounds area in the early 2000's which was developed in two phases. The first development, called Phase 1, of the world-class standard Fairgrounds Office Park featured gym facilities and a coffee shop. The lifestyle options of the development gave the office park a unique appeal welcomed by the various tenants of the development. Phase 2 of Fairgrounds Office Park followed shortly after and now houses such clients as the Ministry of Energy and Water Resources, Cresta Hospitality and Botswana Accountancy College.

In 2008, Bifm along with its consortium partners won the tender for Botswana's first Public Private Partnership (PPP). The P54-million face-brick building, commonly known as Plot 21, was developed to house the Office of the Ombudsman and Lands Tribunal. This PPP was followed by another great milestone for Bifm, in the form of a second PPP tender to develop the SADC Headquarters, located in the Gaborone CBD. This major landmark building is one of the ways that Bifm has redefined the skyline of Gaborone.

In 2010 Railpark Mall, a development by Bifm and its partners was delivered to the public. Another tremendous achievement for Bifm was the development of Airport Junction Shopping Centre, located in Block 10 near Sir Seretse Khama International Airport.

Apart from being a being a great contributor to the changing landscape of Gaborone, Bifm has also assisted in the creation of jobs during the development phase of the various properties it has put up. Furthermore skills transfer was facilitated to the local workforce by working with the best in the construction business. In addition material was sourced locally where ever possible thereby contributing to economic diversification within the country.

## Traditions of Basketry, Doing it Right

Basketry is a skill that requires great dedication and skill in creating baskets that are durable, as well as aesthetically pleasing. Governed by recommendations from the King III report, BIHL conducts its business using proven corporate governance processes. Coupled with insightful industry knowledge informing its strategies, BIHL is also able to return sustainable value for its clients and other stakeholders. New technologies and opportunities only serve to enhance the offering of BIHL. This can be viewed as a new and innovative ways of weaving which can only serve to improve basketry. In BIHL's case this would translate to new and innovative ways of returning value to clients and stakeholders.

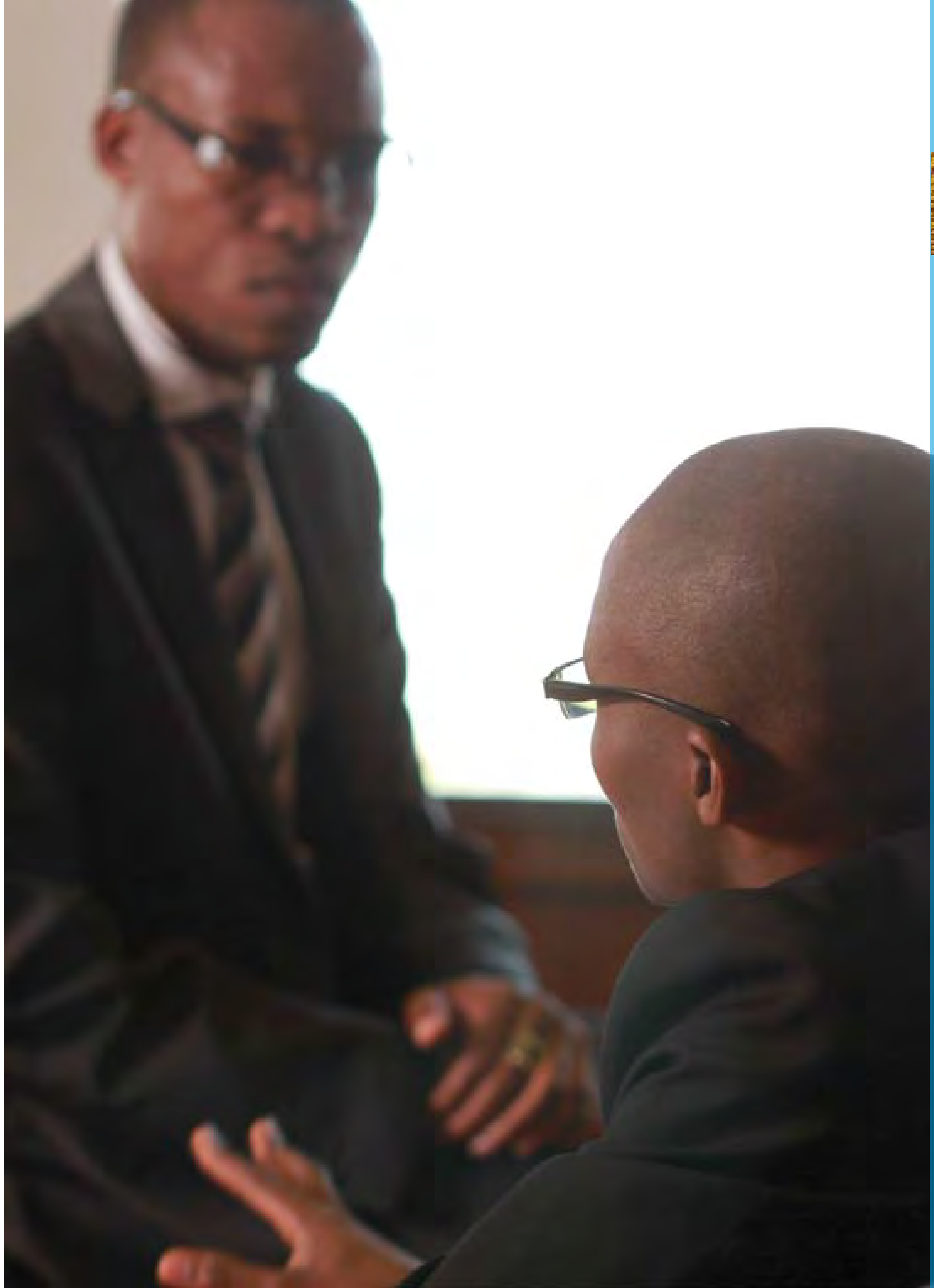
# 03

# Corporate Governance **and Reports**

The Board recognises the responsibility of BIHL to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby safeguarding the interests of all its stakeholders. The Board also appreciates that practising good corporate governance is a component of equity risk and acknowledges the relationship between governance and risk management practices, equity performance and corporate profitability.

Sound governance principles remain one of the top priorities demonstrated by the Board and BIHL's executive management. The BIHL Board of directors is committed to and fully endorses the principles of Corporate Practices and Conduct as recommended in the second King Report on Corporate Governance (King II). It will continue to be committed to pursue the high standards of corporate governance and global best practice as recommended by the subsequent and third Report (King III).

# *Statement* of Commitment



CORPORATE GOVERNANCE

# *Aligning our governance with King III*

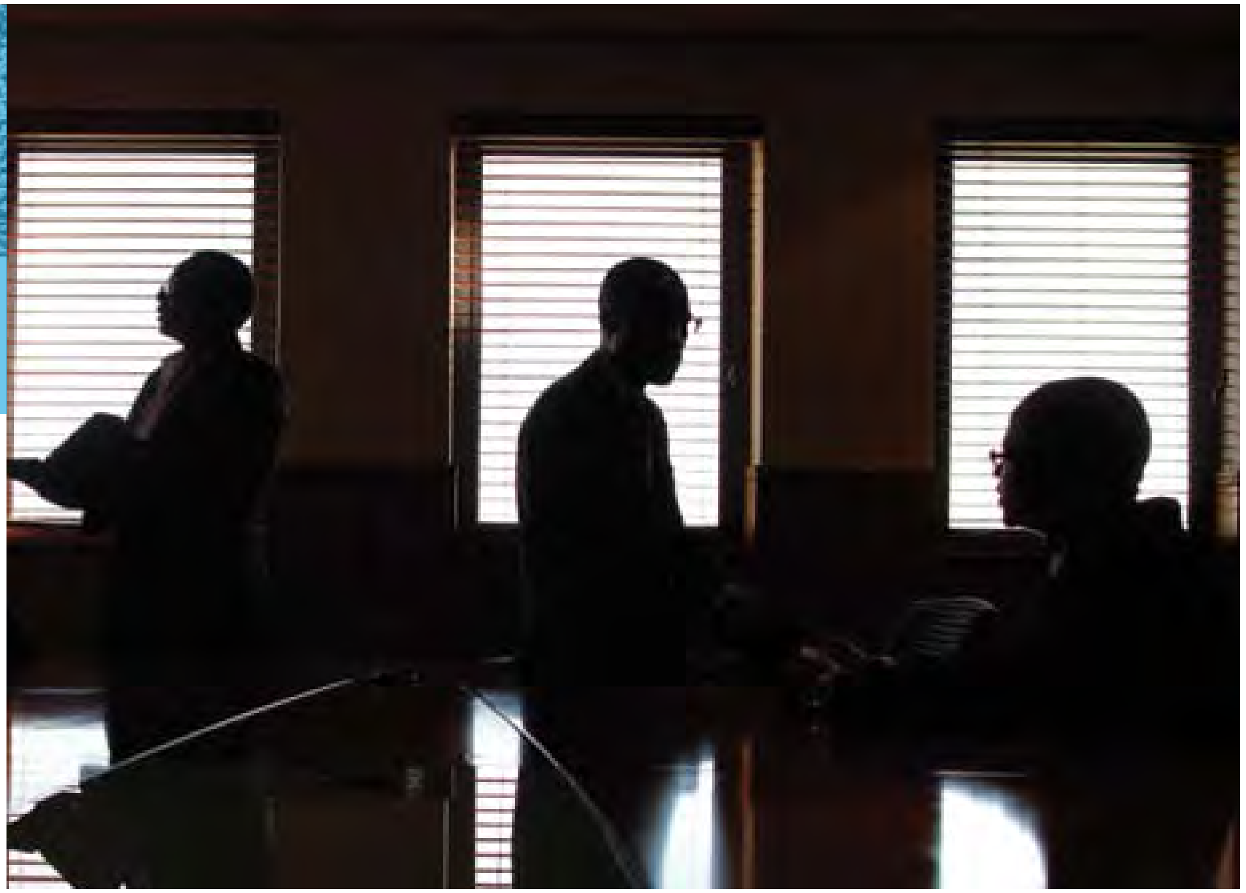
Rorisang Modikana, BIHL Company Secretary
BCom.(Accounting) FCCA, ACA (Botswana)

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

BIHL conducted a thorough review of King III and a gap analysis to identify what specific actions we need to take to implement the King III recommendations.

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

- All Board and Committee Charters are being aligned with King III.
- The existing Governance Framework is being aligned with King III.
- The Boards are to give due attention to the broader business concerns of governance and sustainability.
- The Audit Committee's responsibility is being extended to sustainability reporting, in order to deliver the required integrated Annual Report.
- BIHL's Group Ethics Committee, is set to become a sub-committee of its Audit or Sustainability Committee, ensuring regular reporting so that the Board can monitor ethical issues actively.
- A Code of Good Practice for Institutional Investors is being drafted to inform and guide all role players in the investment chain.
- At least one third of non-executive directors retire by rotation at the BIHL AGM, but this is being assessed in other companies in the Group.
- The BIHL Group has both an audit and a remuneration committee.
- Share-based and incentive schemes are approved by BIHL shareholders at the AGM.
- There is a formal evaluation process of the external auditor as well as formal evaluation processes of internal audit and external assurance providers.
- BIHL has established a Compliance Office to ensure a dedicated Compliance focus. This is possibly not as sufficiently independent as recommended by King III.
- BIHL has already established and implemented almost every requirement of Chapter 4: The Governance of Risk.
- BIHL's newly established Risk Committee has assumed responsibility for the risk management process. An internal Control Framework for the BIHL Group is being developed to be approved by the Group Audit Committee.
- BIHL has implemented formal communication to the Central Audit Committee on the strategy of BIHL by the various CEOs.



- Once managers have engaged with stakeholders, feedback is circulated to the Board, with management members presenting their consolidated feedback to the Board at least annually.
- An internal stakeholder strategy is being developed for the Board.

Our review process also identified some risks in fully implementing the King III principles, and we continue to focus our attention on these issues:

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

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

## Sustainable Performance

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





## Corporate Code of Ethical Conduct

### Business ethics and organisational integrity

The Group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. This commitment is confirmed at Board and general management level by their endorsement of the code of ethics for the Group.

*With every person hired or promoted at the Group, the intention was not only to return value to our valued clients but to improve the knowledge pool of the Business. Our service offering follows the highest codes of conduct and integrity. This service is of an efficiency and quality that our stakeholders and clients highly appreciate*

The human resources department monitors compliance with the principles underlying the code of ethics and investigates all matters brought to its attention. In terms of BIHL's code of ethics, no director or employee within the Group may offer or receive any gift, favour or benefit that may be regarded as an attempt to exert influence or unduly favour any party. BIHL has a formal Group gift/gratuity policy that requires the official declaration and recording of all corporate gifts received or made by any Group director or employee.

## Board's Governance and Structure

The Group is governed by a unitary Board of Directors which may not, in terms of its articles of association, comprise fewer than three nor more than 11 members. More than half of its non-executive directors are independent and a strong element of independent directors exists on the boards of the Group's major subsidiaries. The roles of the Chairman and Chief Executive Officer are separate and 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 Sub-Committees:

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

"Executive directors are employed by, or contracted to, BIHL Limited or any company in the BIHL Group. This includes directors participating in share incentive schemes"

# CORPORATE GOVERNANCE

*The Group benefits from sound corporate governance which works seamlessly with market leading performance. Systems in place at the Group are in line with international financial institutions best practices*

"In accordance with the principles of sound corporate governance, the BIHL Board charter, modelled on the charter principles recommended by King III, incorporates the powers of the Board providing a clear division of responsibilities and accountability of the Board members, collectively and individually, to ensure a balance of power and authority"

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

The Board comprises:

- Six independent non-executive directors;
- Four non-executive directors; and
- One executive director.

The Chairman has no executive function. She meets regularly with senior executive management to monitor progress and discuss relevant business issues and is available to respond to shareholder queries or issues relating to the Group. Non-executive directors have the opportunity to meet separately without the Group Chief Executive Officer as and when circumstances warrant.

## Definition of Independence

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

- Executive directors are employed by, or contracted to, BIHL or any company in the BIHL Group. This includes directors participating in share incentive schemes;
- Non-executive directors are those who represent Sanlam Limited, BIHL's majority shareholder; and
- Independent non-executive directors are all other directors.

## Board Charter

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

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

## Appointment of Directors

The directors are chosen for their business acumen and wide range of skills and experience. The Board gives strategic direction to the company, appoints the Chief Executive Officer and ensures that succession is planned. In appointing directors, emphasis is placed on achieving the balance of skills, experience and professional and industry knowledge is necessary to meet the Group's strategic objectives. The selection and appointment of directors is formal and transparent and a matter for the Board as a whole, assisted by the Nominations Committee. The issue of appropriate training of new and existing directors is consistently reviewed. All directors are subject to an annual performance evaluation. Succession planning is also reviewed regularly.

During the year under review the following appointments and resignations were made:

## Appointments

Mr. Mpho Seboni was appointed as an independent non-executive director on 14 September 2011.

Mr. Thomas Schultz was appointed as a non-executive director on 01 October 2011.

Mr. Gaffar Hassam was appointed an executive director on 01 December 2011.

## Resignations

Mrs. Regina Sikalesele-Vaka resigned as a director on 31 March 2011.

Mr. Armien Tyer resigned as a director on 30 September 2011.

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

- Discussions with the Chairman regarding the Group's expectations of him/her, his/her potential contribution to the Group and the areas of his/her expertise; and
- The benefit of the induction programme aimed at broadening his/her understanding of the Group as well as the business environment and markets within which the Group operates.

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

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

## Board Meetings

The Board meets at least four times per annum to consider business philosophy and strategic issues, to set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Where appropriate, decisions are also taken by way of circulated resolutions. Feedback from its Committees, as well as a number of key performance indicators, variance reports and industry trends are considered. A summary of meetings held and attended is indicted below:

| | Board Meeting | Audit Committee | Nominations Committee | Investment Committee | Remuneration Committee | Credit Committee |
|---|---|---|---|---|---|---|
| C. Chauhan | 5/6 | 1/7 | - | - | 5/5 | - |
| U. Corea | 5/6 | 2/7 | - | - | - | - |
| B. Dambe-Groth | 4/6 | - | - | - | 3/5 | - |
| M. Dawes | 4/6 | 6/7 | - | - | 5/5 | - |
| J. Hinchliffe | 6/6 | 7/7 | - | - | - | - |
| K. Jefferis | - | - | - | 4/4 | - | 4/4 |
| F. Kellerman | 5/6 | 5/7 | - | - | - | - |
| M. Mpugwa | 6/6 | - | - | 4/4 | - | - |
| T. Schultz | 2/6 | - | - | - | - | - |
| M. Seboni | 1/6 | - | - | - | - | - |
| A. Tyer | 3/6 | - | - | 2/4 | 3/5 | - |
| H. Werth | 6/6 | - | - | - | 1/5 | - |

# CORPORATE GOVERNANCE

## Board Sub-committees

At BIHL achieving excellence in corporate governance means achieving synergy between procedural rigour and decision making in accordance with the good judgement of individual directors and board committees as a whole. In practice this synergy is enhanced through nurturing a governance culture defined by care, skill, diligence, good faith and trust.

In exercising control of the Group, the directors are empowered to delegate. Certain functions of the Board are facilitated through the main Sub-Committees, including the Audit and Risk, Investment, Human Resources, Nominations and Independent Review Sub-committees. These committees have formal charters and report to the Board at regular intervals. With the exception of Exco, Board 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 and Risk Committee**

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

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

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

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

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

**Investment Committee**

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

Composition: One independent non-executive director, one non-executive director and one Independent Consultant.



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

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

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

**Human Resources Committee**

Members: Mr. Chandra Chauhan (Chairman); Mrs. Batsho Dambe-Groth; Mrs. Margaret Dawes; Mr. Heinie Werth.

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

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

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

**Nominations Committee**

Members: Mr. Uttum Corea (Chairman); Mrs. Batsho Dambe-Groth; Mr. Heinie Werth.

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

The procedure for the appointment of new directors is formal and transparent, and a matter for the Board as a whole. The Committee's responsibility is to make recommendations to the Board on the appointment of new directors, including recommendations on the general composition of the Board.

The appointments are subject to shareholder confirmation at the next annual general meeting. The Committee meets as and when appropriate.

**Independent Review Committee**

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

Composition: Two independent non-executive directors.

The Committee is responsible for reviewing all related party transactions. The Committee meets as and when appropriate.

**Ad hoc Board Committees**

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

## Remuneration Philosophy

Responsibility for the remuneration strategy of the Group resides with the Human Resources Committee which also approves mandates for incentive schemes within the Group and determines the remuneration of executive committee members, relative to local and international benchmarks. It also makes recommendations to the Board regarding the remuneration of the directors. The Board is convinced that appropriate remuneration for executive directors is inextricably linked to the development and retention of top-level talent and intellectual capital within the Group.

**Employee Remuneration**

The following principles are used to determine appropriate remuneration levels:

- All remuneration principles are structured to provide clear differentiation between individuals with regard to performance;
- A clear and meaningful distinction is made between high performers, average performers and underperformers, with remuneration reflecting these gradients;
- Strong incentives are created for superior performance by individuals and teams;
- Top contributors are rewarded significantly higher performance bonuses; and
- Underperformers are not rewarded and active steps are taken to encourage the individual either to improve performance or leave the Group, in line with accepted practices.

> "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 the determined remuneration principles"

## 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 the determined remuneration principles. In line with the Group'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 meetings. The Group pays for all travelling and accommodation expenses in respect of Board meetings.





**Disclosure of individual directors' emoluments is detailed below:**

| | Annual retainer | Board meeting | Audit and Risk Committee | Investment Committee | Human Resources Committee | Credit Committee | Nominations Committee | Other services | Total |
|---|---|---|---|---|---|---|---|---|---|
| C. Chauhan | 54,450 | 50,000 | 10,000 | - | 60,000 | - | - | 30,000 | 204,450 |
| U. Corea | 54,450 | 55,000 | 20,000 | - | - | - | - | - | 129,450 |
| B. Dambe-Groth | 60,500 | 60,000 | - | - | 30,000 | - | - | 123,238 | 273,738 |
| M. Dawes** | 54,450 | 40,000 | 72,000 | 50,000 | - | - | - | - | 216,450 |
| J. Hinchliffe | 54,450 | 65,000 | 72,000 | - | - | - | - | 147.750 | 339,200 |
| K. Jefferis | - | - | - | 48,000 | - | 40,000 | - | - | 88,000 |
| F. Keller-man** | 54,450 | 50,000 | 50,000 | - | - | - | - | - | 154,450 |
| M. Mpugwa | 54,450 | 60,000 | - | 40,000 | - | - | - | 10,500 | 81,673 |
| T. Schultz** | 18,150 | 20,000 | - | - | - | - | - | - | 38,150 |
| M. Seboni | 28,150 | 10,000 | - | - | - | - | - | 4,719 | 42,869 |
| A. Tyer ** | 36,300 | 30,000 | - | - | 20,000 | 30,000 | - | - | 116,300 |
| H. Werth | 54,450 | 60,000 | - | - | - | 10,000 | - | - | 124.450 |

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

*Executive directors' remuneration is disclosed on page 228, note 19 of the annual financial statements.*

## Evaluation of Performance

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

## Conflict of Interest

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

## Dealings in Botswana Stock Exchange (BSE) Securities

BIHL complies with the BSE requirements in respect of the share dealings of its directors. In terms of BIHL's closed period policy, all directors and staff are precluded from dealing in BIHL securities from 01 January and 01 July respectively, until the release of the Group's final and interim results. The same arrangements apply for closed periods during other price-sensitive transactions (e.g. during a period covered by a cautionary announcement).

No such closed periods were declared during the review period. A pre-approval policy and process for all dealings in BIHL securities by directors and selected key employees are strictly followed. Even more stringent trading policies regarding personal transactions in all financial instruments are enforced at BIHL's investment management companies. A summary of directors' dealings is listed on page 228 of this annual report.

## Advice

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

## Statutory Actuary

Mr. Giles Waugh is an independent statutory actuary who is not in the employ of the Group. He is responsible for assisting the Board in all actuarial matters and conducts the actuarial valuation of the Group. He is also responsible for all regulatory reporting to the Registrar of Insurance and for safeguarding the interests of policyholders. The statutory actuary attends the interim and year-end Board meetings as well as the Audit and Risk Committee meetings. The report of the statutory actuary is set out on page 147.

## Communication with Stakeholders

The Group is committed to a policy of effective communication and engagement with its stakeholders on issues of mutual interest. These include statutory, regulatory and other directives regulating the dissemination of information by the company and its directors and officers. Communications also include the rationale behind major new business developments. Financial results presentations were made to financial analysts on 07 March 2012 for the review period. In addition, personal meetings with analysts and fund managers/trustees were arranged when appropriate. The Group published its interim and annual results in the media on 30 August 2011 and 04 March 2012 in addition to mailing its annual report to all shareholders. Each item of special business included in the notice of the annual general meeting was accompanied by a full explanation of the implications of the proposed resolution.

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

## Forensics

The Group recognises that financial crime and unlawful conduct conflict with the principles of ethical behaviour, as set out in the code of ethics, and undermine the organisational integrity of the Group. The financial crime combating policy for the BIHL Group is designed to counter the threat of financial crime and unlawful conduct. A zero tolerance approach is applied to these matters and all offenders are prosecuted. A Group Forensic Services function at the Sanlam Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that may have an impact on the Group.

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

## Compliance

BIHL considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business. The Group compliance function, together with the compliance functions of the business divisions and units, facilitates the management of compliance through the analysing of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

## Enterprise Risk Management

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

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



The role of risk management is, therefore, to enhance the organisation's ability to manage, and not necessarily avoid or eliminate every risk, but to ensure that the overall risk profile remains acceptable. This may involve various risk responses or a combination thereof, namely acceptance, mitigation and/or avoidance of the risk. The processes in place provide reasonable, but not absolute assurance, that the risks are adequately managed. These processes have been in place during the period under review, and cover all material activities of the Group.

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

Rigorous policies, procedures and methodologies have been adopted and implemented throughout the Group, enabling the effective identification and management of risks. All processes and procedures have been designed to provide reasonable assurance that risks are adequately managed. A detailed risk report is included on page 98 of the annual report.

## Employment Equity and Localisation

Employment and localisation remain a high priority business imperative. All Group businesses have implemented their respective plans for the period to 31 December 2011. These plans are reviewed annually to ensure they remain aligned with business objectives and industry needs.

## Financial Reporting

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

## Internal Audit

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

## External Audit

The external auditors provide an independent assessment of BIHL's systems of internal financial control and express an independent opinion on the annual financial statements. The external audit function provides reasonable, but not absolute, assurance on the accuracy of the financial disclosures. The external auditor's plan is reviewed by the Audit and Risk Committee to ensure that significant areas of concern are covered, without infringing on the external auditor's independence and right to the audit. Close cooperation between the internal and external auditors ensures appropriate combined audit and minimisation of duplicated effort.

## Company Secretary and Professional Advice

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

## Approval of Annual Financial Statements

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

## Going Concern

The Board has considered and recorded the relevant facts and assumptions and has concluded that BIHL will continue as a going concern during the 2012 financial year. Their statement in this regard is also contained in the statement of directors' responsibility for annual financial statements.

# THE CODE OF CORPORATE GOVERNANCE: **COMPLIANCE STATEMENT**

In an attempt to improve its corporate governance principles and to enhance the Board's accountability, the Group has voluntarily decided to subject itself to the highest level of corporate governance and best practice. The statement below, which is based on the code published by the Financial Reporting Council of the United Kingdom, measures the degree of its compliance to the respective codes. The Group has complied with the Codes of Best Practice throughout the financial year ended 31 December 2011, other than with exceptions noted below.

| | | |
|---|---|---|
| **A** | **BOARD MEMBERS AND ACCOUNTABILITY** | |
| A.1 | The Board | Complied |
| | Every company should be headed by an effective board, which is collectively responsible for the success of the company. | The Group is governed by a unitary Board. The Board sets the strategic direction and approves matters relating to senior management changes, staff remuneration policies, business plans, annual budgets, etc. |
| A.2 | Chairman and Chief Executive Officer | Complied |
| | There should be a clear division of responsibilities at the head of the company between the running of the Board and executive responsibility for the running of the business. No one individual should have unfettered powers of decision. | There is a clear separation of duties and responsibilities of the Chairman and the Chief Executive Officer. The Chairman does not have executive powers except to direct the Board on its decisions. The division of power is set out in the Board Charter. |
| A.3 | Board balance and independence | Partially Complied |
| | The Board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the Board's decision making. | Six directors are independent. Of the other five directors, one is an executive director and four are non - executive directors.<br><br>The board is of sufficient size and the balance of skills and experience is appropriate for the requirements of the business.<br><br>Board balance can also be interpreted to mean balance of capabilities. The non-executive members of the Board contribute a wide range of skills and experience, forming a strong and independent element within the Board. The non-executive members of the Board receive a sitting allowance for services rendered and have served for less than eight years.<br><br>The four non-executive directors are employed by Sanlam.<br><br>The executive director has been in the employ of the Group for more than five years. |
| A.4 | Appointment to the Board | Complied |
| | There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. | There is a Nomination Committee in place to lead the process of appointment of members of the Board.<br><br>Appointments to the Board are made on merit and against objective criteria. Care is taken to ensure that appointees have enough time available to devote to the job.<br><br>The members of the nomination committee are non-executive directors and the Committee is chaired by an independent non-executive director. |
| A.5 | Information and professional development | Complied |
| | The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.<br><br>All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge. | The Board ensures that a new member is properly inducted and the members obtain sufficient professional advice from both internal and external sources.<br><br>The Board meets at least quarterly to consider matters put before it. All matters discussed at the Board meetings are supported by written and/or oral presentations to enable members to make informed decisions.<br><br>The Board has been inducted at various times.<br><br>The Board's Secretary is responsible for ensuring that its procedures are followed. |
| A.6 | Performance Evaluation | Partially Complied. |
| | The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. | Targets are set for the Executive Director against which his performance is evaluated annually. The Board also evaluates its own performance annually. Each director completes an evaluation form and the Chairman takes the lead in providing feedback to the Board. No evaluation is performed on the individual directors or the Chairman. |
| A.7 | Re- election | Complied |
| | All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the board. | All directors are subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of three years.<br><br>Non-executive directors are appointed for specified terms subject to re-election and to the Companies Act's provisions relating to the removal of a director. |

## THE CODE OF CORPORATE GOVERNANCE: **COMPLIANCE STATEMENT** (CONTINUED)

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



| | | | |
|---|---|---|---|
| C.3 | Audit committee and auditors | Complied | |
| | The Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. | The Board through the Audit and Risk Committee ensures that basic internal control principles which culminate in good financial reporting are adhered to.<br><br>The Audit and Risk Committee monitors and reviews the effectiveness of the internal audit activities.<br><br>The Audit and Risk Committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. | |
| **D** | **RELATIONS WITH STAKEHOLDERS** | | |
| D.1 | Dialogue with institutional shareholders | Complied | |
| | There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. | There is always satisfactory dialogue between the Group and its shareholders.<br><br>Financial results presentations are made to financial analysts. In addition, personal meetings with analysts and fund managers/trustees are arranged when appropriate.<br><br>The Group publishes its interim and annual results in the media in addition to mailing its annual report to all shareholders. Each item of special business included in the notice of the annual general meeting is accompanied by a full explanation of the implications of the proposed resolution. | |
| D.2 | Constructive use of AGM | Complied | |
| | The Board should use the AGM to communicate with investors and to encourage their participation. | At the general meeting, the Group proposes a separate resolution on each substantially separate issue, and in particular proposes a resolution at the AGM relating to the report and accounts.<br><br>For each resolution, proxy appointment forms provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.<br><br>The Group ensures that all valid proxy appointments received for general meetings are properly recorded and counted.<br><br>The chairmen of the Audit, Remuneration and Nomination Committees attend the AGM to answer questions.<br><br>A Notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting. | |

BIHL is implementing a Combined Assurance Model (CAM) in line with principle 3.5 of the King III code on corporate governance which the organisation has adopted. The BIHL Group CAM has been completed and is now in place. The implementation of CAM to BIHL subsidiaries will take place during the 2012 financial year.

## Purpose of the CAM

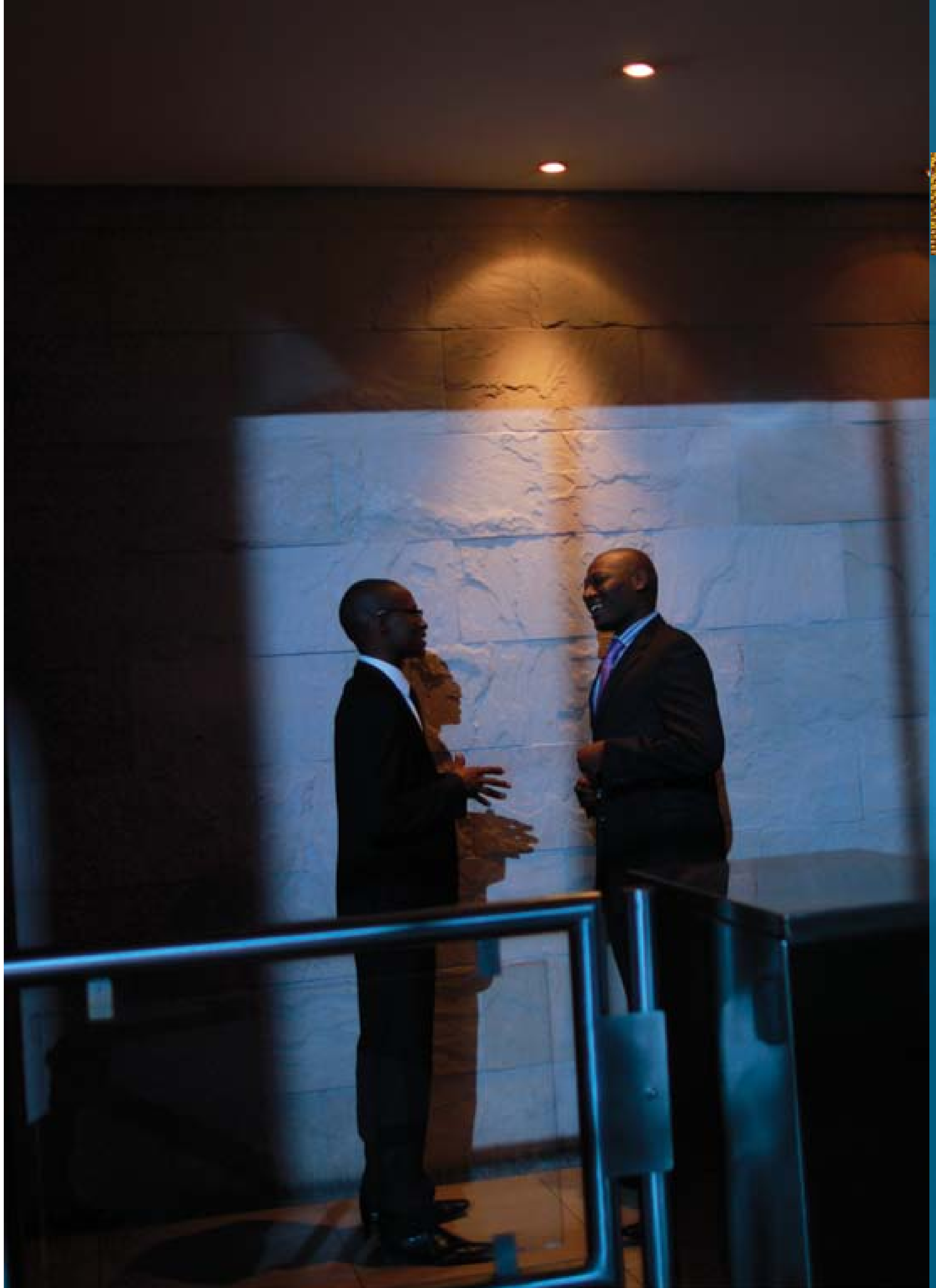
- To give the Board of directors an idea of the type of assurance for major processes and risks in the organisation.
- To provide the Board with the comfort that the business has enough assurance providers in place to mitigate a particular risk.
- To ensure gaps are easily identified.

## 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.

# *Introducing*

## Combined Assurance Model (CAM)



# RISK REPORT

| FIRST LINE OF DEFENCE (Management) | SECOND LINE OF DEFENCE (Internal Assurance Providers) | THIRD LINE OF DEFENCE (External Assurance Providers) |
|---|---|---|
| ■ The first line of defence is management, as they are accountable for all risks in the organisation<br>■ Their accountability in managing risk is either implicit or explicit | ■ The risk function, forensics, compliance, actuarial and investment management function act as the second line of defence<br>■ The second line of defence is there to assist management in mitigating by giving them advice and providing assurance on key risks. | ■ The third line of defence is internal audit, external audit, statutory actuary and any other structures that may be used from time to time<br>■ These are the most independent assurance providers<br>■ Their assurance is more objective and as such they provide unbiased advice on the management of key risks |

## 1. Risk Management and Compliance Policies

The following policies are currently being reviewed for effectiveness and to ensure a robust risk management framework in the BIHL Group:

**1a 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 the BIHL Group.
- 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 group 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.

"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"

- 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 behaviour 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 REPORT

## Risk types

The Group is exposed to the following main risks:

| Risk category (primary) | Risk type (secondary) and description | Potential significant impact |
|---|---|---|
| Operational | Operational risk is the risk that there is a loss as a result of inadequate or failed internal processes, people or systems and external events. Operational risk includes: | All Group businesses |
| | Information and technology risk: the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data. | |
| | Going concern/business continuity risk: the risk that inadequate processes, people, financial controls and resources exist to continue business in the foreseeable future. | |
| | Legal risk: the risk that the Group will be exposed to contractual obligations which have not been provided for. | |
| | Compliance risk: the risk of not complying with laws and regulations, as well as investment management mandates. | |
| | Human resources risk: the risk that the Group does not have access to appropriate skills and staff complement to operate and effectively manage other operational risk. | |
| | Fraud risk: the risk of financial crime and unlawful conduct occurring within the Group. | |
| | Taxation risk: the risk of financial loss owing to changes in tax legislation that result in the actual tax on shareholders' fund earnings being higher than expected, with a corresponding reduction in return on GEV; or the actual policyholder tax being higher than that assumed in the determination of premium rates and guaranteed policy benefits. | |
| | Regulatory risk: the risk that new acts or regulations will result in the need to change business practices that may lead to financial loss. | |
| | Process risk: the risk of loss as a result of failed or inadequate internal processes. | |
| | Project risk: the risks inherent in major projects. | |
| Reputational | Reputational risk is the risk that the actions of a business (e.g. the treatment of clients, employment equity and social responsibility) harm its reputation and brand. | All Group businesses |
| Strategic | Strategic risk is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy. | All Group businesses |

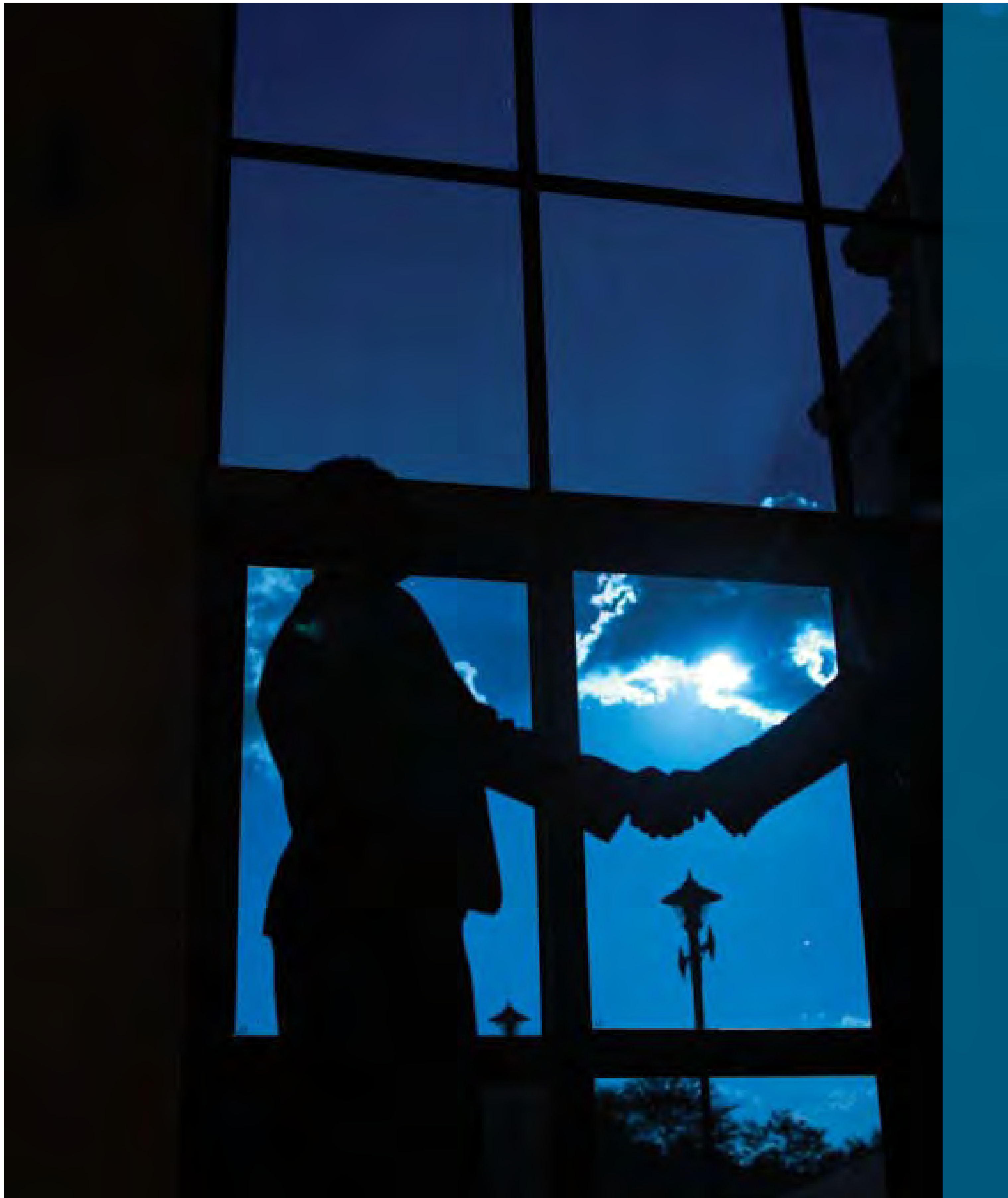


| Risk category (primary) | Risk type (secondary) and description | Potential significant impact |
|---|---|---|
| Market | Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market. Market risk includes: | All Group Businesses |
| | Equity risk: the risk that the value of a financial instrument will fluctuate as a result of changes in equity prices. | |
| | Interest rate risk: the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates and the risk that a mismatch loss will be incurred in respect of a matched asset/liability position following changes in interest rates. | |
| | Currency risk: the risk that the 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 that losses will be incurred as a result of a deviation between asset and liability cash flows, prices or carrying amounts. | |
| | Concentration risk: the risk of losses associated with inadequately diversified asset portfolios. This may arise either from a lack of diversification in the asset portfolio, or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations). | |
| | Market liquidity risk (also known as trading liquidity risk or asset liquidity risk): risk stemming from the lack of marketability of a financial instrument that cannot be bought or sold quickly enough to prevent or minimise a loss (or realise the required profit). | |
| Credit | Credit risk is the risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the company has exposure. Credit risk includes: | Life insurance<br>Short-term insurance |
| | Default risk: credit risk arising from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations. | |
| | Downgrade or Migration risk: risk that changes in the possibility of a future default by an obligator will adversely affect the present value of the contract with the obligator. | |
| | Settlement risk: risk arising from the lag between the transaction and settlement dates of securities transactions. | |
| | Reinsurance counterparty risk: concentration risk with individual reinsurers, owing to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. | |
| | Credit spread risk: the sensitivity of financial instruments to changes in the level or volatility of credit spreads over the risk-free interest rate term structure. | |
| Liquidity | Liquidity risk is the risk relating to the difficulty/inability to accessing/raising funds to meet commitments associated with financial instruments or policy contracts. | Life insurance<br><br>Short-term insurance |

# RISK REPORT

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

Strictly speaking credit spread risk is part of market risk, however it has been included 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).



# The BIHL Group's performance measurement and financial communication philosophy is based on its values which include **transparency, honesty and integrity**

We are therefore passionate about providing useful, clear and value-added information in our financial statements to our shareholders and other stakeholders. This is why the BIHL Annual Report contains significant additional information than prescribed by International Financial Reporting Standards (IFRS).

**Returns RoGEV**

**Growth Earnings**
- Net Business Flows
- Diversification
- Operational Efficiencies

**Capital Efficiency**
- Optimal Application
- Strategic Investments
- Return of Excess

# FINANCIAL REVIEW

"We view the requirements of IFRS and other relevant regulations and legislation as minimum compliance standards. Our disclosures are further aligned with the Group's internal reporting structure to ensure that external users of the financial statements have the same insight to the Group's financial results as BIHL's management."

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

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 management

## (a) Shareholder Value

The BIHL Group delivered a solid and stable performance in 2011 – a year that continued to have uncertainties in world financial markets. Despite the continued financial turmoil, 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 5.9 times (December 2010: 5.8 times)

## (b) Business Volumes

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

**New business volumes**

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



**Net fund flows**

Net fund flows are the aggregate of the following:

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

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

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Life insurance business: | | |
| Recurring | 174,088 | 210,222 |
| Single | 875,244 | 855,928 |
| Total new business | 1,049,331 | 1,066,151 |
| Recurring | 691,796 | 541,959 |
| Single | - | (4,432) |
| Total existing business | 691,796 | 537,527 |
| Outflows | (925,439) | (695,827) |
| Net funds flows | 815,688 | 907,851 |
| Asset Management Business: | | |
| Inflows | 687,930 | 475,776 |
| Outflows | (2,012,174) | (307,080) |
| Net funds flows | (1,324,244) | 168,696 |
| Total net funds flows | (508,556) | 1,076,547 |

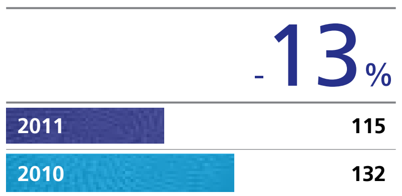
The Group net fund flows have decreased by 147% from P1,08 billion to a negative P509 million in 2011. The business flows have been affected by withdrawals of funds by Botswana Public Officer's Pension Fund (BPOPF).

**Value of new business and new business margin**

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

## VALUE OF NEW BUSINESS

**PULA MILLION**




**Value of new business and new business margin**

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Value of new covered business | 115,305 | 132,346 |
| Present value of new business premiums | 1,497,500 | 1,639,421 |
| New covered business margin | 7.70% | 8.07% |

The value of new life business decreased by 13% to P115.3 million. The decrease is mainly due to low sales volumes on the individual life business. New business margins have been maintained at satisfactory levels, albeit affected by the worsening persistency.

## (c) Earnings

BIHL uses four key indicators to asses earnings performance and operational efficiencies; Operating profit, Core earnings, Administration cost ratio, and Return on embedded value.

**Operating profit**

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

**Core earnings**

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

**Administration cost ratio**

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

**Return on Embedded Value**

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

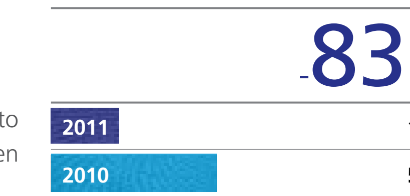
**Performance for the year to 31 December 2011**

| | Dec 2011 P'000 | Dec 2010 P'000 | % Change |
|---|---|---|---|
| Operating profit | 315,514 | 281,071 | 12% |
| Investment income on shareholders' assets | 10,158 | 58,086 | (83%) |
| Core earnings | 325,672 | 339,157 | (4%) |
| Profit on sale of subsidiary | 33,785 | - | - |
| Share of profit of associate and joint ventures net of tax | 133,872 | 72,217 | 85% |
| Investment gains/(losses) on shareholders' assets | 35,084 | (9,435) | 472% |
| Profit before tax | 528,413 | 401,938 | 31% |
| Tax | (57,083) | (69,456) | (18%) |
| Profit after tax | 471,330 | 332,482 | 42% |
| Non-controlling interests | (8,357) | (9,933) | - |
| Profit attributable to equity holders of parent | 462,973 | 322,549 | 44% |

Operating profit (operational result excluding investment income and investment surpluses) increased by 12% to P 315.5 million. The increase was as a result of good operational performance from the life insurance, asset management and Legal Guard businesses.

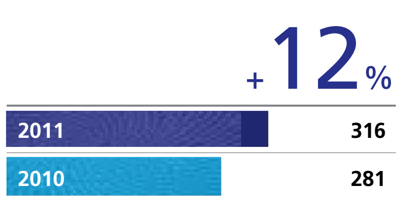
## INVESTMENT INCOME

**PULA MILLION**



## OPERATING PROFIT

**PULA MILLION**




| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Life | 247,881 | 206,070 |
| Asset Management | 46,419 | 70,293 |
| Other | 21,215 | 4,707 |
| Total | 315,514 | 281,071 |

Investment income comprises interest and dividend income and decreased by 83% to P10.2 million as companies underperformed and were therefore cautious on dividend payouts. Investment gains increased by 472% to P35.1 million as a result of better equity performance for the year.

Share of profit of associates and joint ventures significantly increased to P133.9 million, due to an increased stake in one of the associates during the year and good underlying performance.

**Segment Contribution**

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

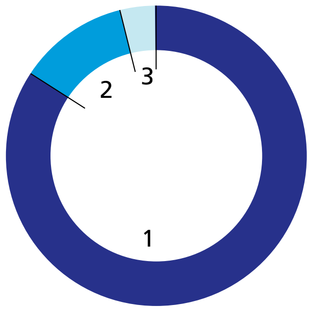
**Contribution to earnings - year to 31 December 2011**

| | Life insurance business P'000 | Asset management business P'000 | Consolidation adjustments and other P'000 | Total P'000 |
|---|---|---|---|---|
| Operating profit | 247,881 | 46,419 | 21,214 | 315,514 |
| Investment income on shareholders' assets | 48,902 | (3,654) | (35,090) | 10,158 |
| CORE EARNINGS | 296,783 | 42,765 | (13,876) | 325,672 |
| Profit on sale of subsidiary | - | 30,524 | 3,261 | 33,785 |
| Investment surpluses/(losses) on shareholders' assets | 19,076 | 21,822 | (5,814) | 35,084 |
| Share of profit of associates and joint ventures, net of tax | - | 1,898 | 131,974 | 133,872 |
| Tax | (32,649) | (11,042) | (13,392) | (57,083) |
| Profit after tax | 283,209 | 85,967 | 102,154 | 471,330 |
| Non-controlling interests | - | (8,357) | - | (8,357) |
| Profit after tax attributable to ordinary equity holders of the parent | 283,209 | 77,610 | 102,154 | 462,973 |

**Contribution to earnings - year to 31 December 2010**

| | Life insurance business P'000 | Asset management business P'000 | Consolidation adjustments and other P'000 | Total P'000 |
|---|---|---|---|---|
| Operating profit | 206,070 | 70,293 | 4,707 | 281,071 |
| Investment income on shareholders' assets | 31,323 | 24,533 | 2,230 | 58,086 |
| CORE EARNINGS | 237,393 | 94,827 | 6,937 | 339,157 |
| Share of profit of associates and joint ventures, net of tax | - | 1,740 | 70,477 | 72,217 |
| Investment surpluses on shareholders' assets | 10,170 | 14,146 | (33,751) | (9,435) |
| Tax | (46,083) | (18,982) | (4,391) | (69,456) |
| Profit after tax | 201,480 | 91,730 | 39,272 | 332,482 |
| Non-controlling interest | - | (9,933) | - | (9,933) |
| Profit after tax attributable to ordinary equity holders of the parent | 201,480 | 81,797 | 39,272 | 322,549 |

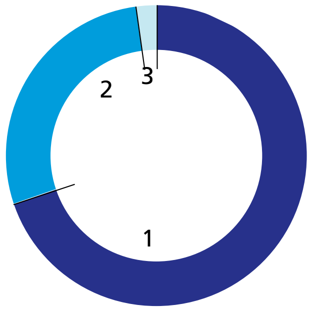
## CONTRIBUTION TO EARNINGS 2011




**325 mil**

| | |
|---|---|
| 1. Life Insurance | 84 |
| 2. Asset Management | 12 |
| 3. Other | 4 |

## CONTRIBUTION TO EARNINGS 2010

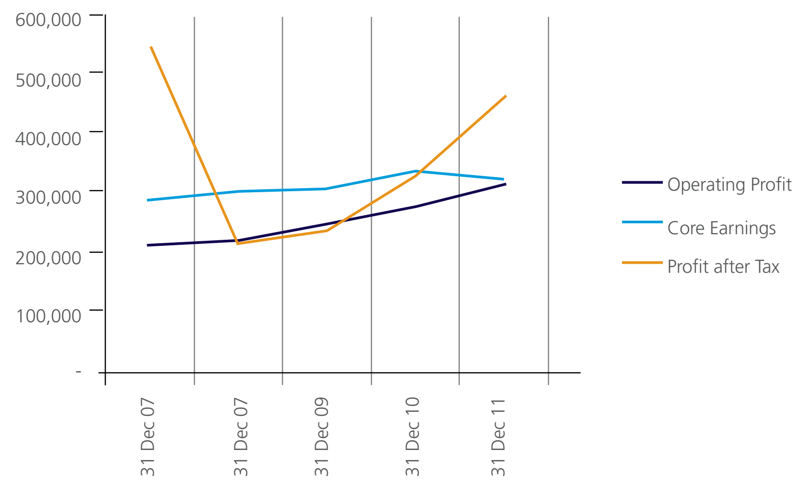



**339 mil**

| | |
|---|---|
| 1. Life Insurance | 70 |
| 2. Asset Management | 28 |
| 3. Other | 2 |

## 5 YEAR REVIEW - CORE EARNINGS

**PULA MILLION**




**Five year review of core earnings**

The performance over the past five years is as follows:

| | 2011 P'000 | 2010 P'000 | 2009 P'000 | 2008 P'000 | 2007 P'000 |
|---|---|---|---|---|---|
| Operating surplus | 315,514 | 281,071 | 250 590 | 222,442 | 216,202 |
| Investment income on shareholders' assets | 10,158 | 58,086 | 57 397 | 88,395 | 75 807 |
| Core earnings | 325,672 | 339,157 | 307 987 | 310,837 | 292 009 |
| Profit on sale of subsidiary | 33,785 | - | - | - | - |
| Share of profits of associates and joint ventures , net of tax | 133,872 | 72,217 | 26 821 | 9,802 | 4,001 |
| Investment gains ( losses) on shareholders' assets | 35,084 | (9,435) | (77 591) | (85,140) | 307,675 |
| Tax | (57,083) | (69,456) | (19,544) | (14,037) | (49,867) |
| Profit after tax | 471,330 | 332,483 | 237,673 | 221,462 | 553 818 |
| Non-controlling interest | (8,357) | (9,933) | 10,370 | 19,205 | 19 695 |
| Profit attributable to ordinary equity holders of the parent. | 462,973 | 322,550 | 227,303 | 202,257 | 534,123 |

**(ii) Administration cost ratio**

The administration cost ratio for the year was 24.8% (31 December 2010: 25.6%). This reflects the Groups focus on cost control and operational efficiency.

**(iii) Return on embedded value**

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


| | 2011 P'000 | 2010 P'000 |
|---|---|---|
| Embedded value at end of year | 2,409,662 | 2,406,628 |
| Embedded value at beginning of year | 2,406,628 | 2,221,097 |
| Change in embedded value | 3,034 | 185,531 |
| Dividends paid | 185,507 | 216,424 |
| Embedded value earnings | 188,541 | 401,955 |
| Return on embedded value (ROEV)% p.a. | 8% | 18% |

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

## (d) Capital management

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

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

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

- The Group's internal dividend policy is based on the annual declaration of all discretionary capital that is not required for normal operations or expansion; and
- Performance targets are set for other Group operations based on an expected return on the fair value of the businesses, equal to their internal hurdle rates. This ensures that all non-productive working capital is declared as a dividend to the Group.

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

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

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

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

"The performance measurement of other Group operations is based on the return achieved on the fair value of the businesses. Risk-adjusted return targets are set for the businesses to ensure that each business' return target takes cognisance of the inherent risks in the business."

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

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

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

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

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

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

## Shareholder Income Statement

**For the year ended 31 December 2011**

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Financial services income | 1,688,237 | 1,223,188 |
| External clients | 1,688,237 | 1,223,188 |
| Inter-company | - | - |
| Sales remuneration | (219,687) | (296,898) |
| Income after sales remuneration | 1,468,550 | 926,290 |
| Underwriting policy benefits | (907,458) | (408,017) |
| Administration costs | (245,578) | (237,203) |
| Result from financial services before tax | 315,514 | 281,070 |
| Tax on financial services income | (59,945) | (75,019) |
| Result from financial services after tax | 255,569 | 187,940 |
| Non-controlling interests | (2,917) | (7,456) |
| NET RESULT FROM FINANCIAL SERVICES | 252,652 | 198,595 |
| Net investment income | (736) | 41,495 |
| Investment income | 10,158 | 58,086 |
| Tax on investment income | (11,482) | (14,114) |
| Non-controlling interest | 588 | (2,477) |
| CORE EARNINGS | 251,915 | 240,090 |
| Net equity-accounted headline earnings | 133,872 | 72,216 |
| Equity-accounted headline earnings | 163,342 | 96,089 |
| Tax on equity-accounted headline earnings | (28,762) | (23,873) |
| Non-controlling interest | (708) | |
| Net investment surpluses | 20,845 | (4,768) |
| Investment surpluses | 35,084 | (9,345) |
| Tax on investment surpluses | (8,211) | 4,666 |
| Non-controlling interest | (6,028) | 1 |
| Secondary tax on companies | 22,556 | 15,011 |
| Profit on disposal of subsidiaries | 33,785 | - |
| HEADLINE EARNINGS | 462,973 | 322,549 |
| ATTRIBUTABLE EARNINGS | 462,973 | 322,549 |

## Ordinary shareholders' assets

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

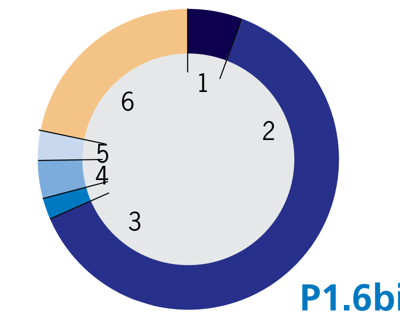
| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| ASSETS | | |
| Property, equipment and computer software | 44,371 | 36,828 |
| Goodwill | 114,923 | 121,806 |
| Investments | 1,587,119 | 1,420,992 |
| Investment properties | 91,705 | 96,476 |
| Equity-accounted investments | 980,594 | 476,823 |
| Equities and similar securities | 24,665 | 282,145 |
| Public sector stocks and loans | 81,905 | 74,180 |
| Debentures, insurance policies, and other loans | 57,281 | 149,557 |
| Cash, deposits and similar securities | 350,968 | 346,812 |
| Net trade and other payables, deferred tax | (137,889) | (11,204) |
| Cash, deposits and similar securities | 73,326 | 113,990 |
| Non-controlling interests | (36,049) | (31,095) |
| | 1.645.801 | 1,651,317 |

## Dividend

The Directors have resolved to award a final dividend for the period, net of tax, of 37.93 thebe per share. The dividend payment for the year, net of tax is as follows;

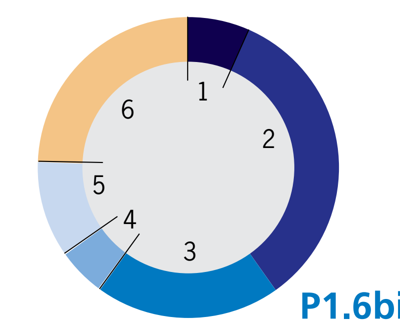
| | Interim, already paid | Final | Year to Dec 2011 (interim & final) | Year to Dec 2010 (interim & final) |
|---|---|---|---|---|
| Normal dividend | 23.12 | 37.93 | 61.05 | 56.10 |
| | **23.12** | **37.93** | **61.05** | **56.10** |

### TOTAL SHAREHOLDERS' FUND INVESTMENT MIX 2011




| | | |
|---|---|---|
| 1 | Investment Properties | 6 |
| 2 | Equity- accounted Investments | 62 |
| 3 | Equities and similar Securities | 1 |
| 4 | Public Sector Stocks and Loans | 5 |
| 5 | Debentures, Insurance Policies, Preference Shares and Other Loans | 4 |
| 6 | Cash Deposits and Similar Securities | 22 |

### TOTAL SHAREHOLDERS' FUND INVESTMENT MIX 2010




| | | |
|---|---|---|
| 1 | Investment Properties | 7 |
| 2 | Equity- accounted Investments | 33 |
| 3 | Equities and similar Securities | 20 |
| 4 | Public Sector Stocks and Loans | 5 |
| 5 | Debentures, Insurance Policies, Preference Shares and Other Loans | 11 |
| 6 | Cash Deposits and Similar Securities | 24 |

# MAKING A DIFFERENCE IN PEOPLE'S LIVES

The work of the BIHL Trust started to make a tangible difference to the lives of hundreds of individuals around the country as several projects initiated in past years came to fruition during the review period.

# BIHL CORPORATE SOCIAL INVESTMENT REPORT

The Trust's main objective is to empower communities by funding projects that benefit the disadvantaged members of our society. Furthermore, the Trust will contribute toward the protection and conservation of Botswana's natural environment.

The Trust has the opportunity of creating greater awareness this coming financial year. A road show will be carried out with the hope of attracting assistance for a wider spectrum of organisations and individuals with projects that are making a tangible difference to their communities.

The BIHL trustees have been conducting a 'scouting programme' to identify worthy, existing projects that require support, especially in less acceseable areas of the country. The findings will assist in current operations and further increase the Trust's capacity.

## Professor Thomas Tlou Scholarship

A key project initiated during 2011 was the launch of the BIHL Thomas Tlou Scholarship in August. Professor Thomas Tlou greatly contributed to the development of our country as a noted international historian, scholar and diplomat. He has also represented Botswana at the United Nations. His works continue to provide much needed inspiration in the lives of Batswana to this day.

BIHL, with the agreement of Professor Tlou's family and the University of Botswana (UB), has set up a scholarship for deserving, underprivileged individuals who wish to pursue post-graduate studies. The eligiable indivduals can pursue any discipline that is intended to contribute to the socio-economic development of Botswana. Priority will be awarded to graduates student attending the University of Botswana. If a discipline is not available at UB, BIHL Trust will sponsor the recipient's attendance at any appropriate local tertiary institution.

The 2012 academic year will mark the first scholarship to be awarded. Initially only three scholarships will be awarded, with the possibility of more scholarships in the future.

The show of dignitaries who attended the launch further affirms the value of the scholarship. This included the Minister of Education, Hon. Pelonomi Venson-Moitoi; the Member of Parliament for Gaborone Central, Hon. Dumelang Saleshando; the Chairman of the House of Chiefs Kgosi Kgolo Puso Gaborone of the Batlokwa; the Mayor of Gaborone, Hon Veronica Lesole; the Vice Chancellor and Deans of the Business Faculties at the University of Botswana; Professor Sheila Tlou and the entire Tlou family.



## Ghanzi Projects

A study carried out during the year indicated that there was great need particularly for projects that dealt with baking and sewing, respectively. Two projects that were focused solely on sewing had major orders from two local schools to supply school uniforms. The other two projects supplied bread to schools within their area. The Trust thus saw this as an opportunity to lend a helping hand to these initiatives. It invested support that was valued at P237 000. The sewing projects were awarded sewing machines while the baking projects were awarded baking equipment.

The support the Trust gave enabled the four projects to accomplish their set targets with ease.

## Housing Projects

In a bid to assist the department of Social Welfare, the Trust invested P300,000 in the construction of houses for the needy. The houses were handed over to families in Artesia, Molepolole, Masingwaneng and Letlhakeng districts.

Other key projects in which the BIHL Trust was involved in 2011 include:

## Thapong Visual Arts Centre

BIHL Trust supported the Thapong Visual Arts Centre to conduct workshops in Bobonong, Tsabong, Gumare and Letlhakeng. Under the theme "Improving Rural Livelihood through the Visual Arts," the workshops were aimed at bringing together young and experienced artists to nurture the talent that exists in those villages within a specific discipline of the arts.

## Gamodubu Child Care Trust

BIHL Trust assisted the Gamodubu Child Care Trust to construct a structure that would be used for activities for the centre. Manual brick making machines were also donated to assist the organisation to enable it to make its own bricks to build the structure. The project is expected to be completed in the current financial year.

## Thuso Rehabilitation Centre

A handing over ceremony of a minibus that was donated to Thuso Rehabilitation Centre which is based in Maun took place and it was accepted by former Minister of Transport and Communications, Honourable Frank Ramsden. This minibus will be used to enable the organisation to transport their patients to and from the centre.

The centre provides rehabilitation services for the disabled community in Ngamiland and Chobe districts.

## Maru-a-Pula School Orphan and Vulnerable Children's Fund

The BIHL Trust Board agreed to support the Maru-a-Pula School Orphan and Vulnerable Children's Fund again in 2011. It has since donated P200,000, this donation goes into a fund that allows disadvantaged, orphaned children to attend the school. Many who have been given this opportunity have gone on to attend some of the world's leading universities including MIT in Boston, Yale in Connecticut and Stanford in California.

HUMAN RESOURCES REVIEW

# EMBRACING CHANGE, PROMOTING DEVELOPMENT

Human Resources faced significant challenges during 2011. Most noteworthy of these was the establishment of BIHL as an operational entity in line with the strategy of developing the Group as a broad-based financial services company.

For any organisation, change, whether minor or great, can be difficult. In particular, the planning and restructuring that was required within BIHL as our strategy began to take shape was stressful for both employees and departments that were to be absorbed into the Group function. As the strategy began to take shape, however, it became evident that some difficult business decisions would have to be made in the interest of the Group as a whole.

As a result, some new roles and positions that had been proposed when the strategy was initially mooted were subsequently rationalised to align the structure to the new business model and strategy. As a result some of the positions had to be reviewed in this regard.

By year-end, however, the new Group structure had largely been finalised. At present, almost all positions have already been filled.

The challenge for 2012 will be to stabilise the new structures both at Group and subsidiary levels. Roadshows are to be held to explain the new organisational set-up and strategy to all staff. This will reassure them about the Group's future direction as well as the role they will play in taking the Group forward. A consequence of the restructuring of the Group is that existing succession plans are no longer valid. The Group's policy is to promote staff into more senior positions wherever possible, and this requires us to develop new succession plans as quickly as possible. The initial focus in developing these plans will be on the key positions but this will filter throughout the organisation thereafter.



The ultimate success of any succession strategy depends on two key factors: retention and development. There is fierce competition for talent and skills throughout Botswana and BIHL is just one of many organisations having to grapple with this perennial challenge.

We are therefore in the process of drafting a dynamic retention strategy – one that goes beyond remuneration alone. This will enable us to hold onto the expertise we possess. A key component of this strategy will be to enable us to position BIHL as an employer of choice for the best talent available. At the same time, we are re-examining our remuneration policies to ensure we are well placed in our efforts to attract and retain high performance and key talent. Development is a corollary of retention. We recognise that development of our staff is essential for the development and growth of the Group as a whole. We need to empower our people to grow professionally by providing an environment that supports either self-development or the attainment of more formal qualifications where appropriate. Particular attention is being given to training and coaching members of the BIHL family to become leaders and innovators.

Finally, the entire HR delivery process is in the process of being upgraded to better serve the needs of a growing, dynamic Group. The old manual HR system is therefore being replaced by a fully-resourced, flexible and integrated HR management system (HRMS) that will make implementation and management of progressive HR strategies more effective.

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 2011, 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.

# *Definition* of Embedded Value

# EMBEDDED VALUE REPORT

## 2. Embedded Value Results

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Shareholders' net assets excluding goodwill | 1,575,711 | 1,252,454 |
| Fair value adjustments | 334,865 | 614,648 |
| | 1,910,576 | 1,867,102 |
| Value of in-force business | 499,086 | 539,526 |
| Value before cost of capital | 642,589 | 656,330 |
| Fair value adjustments | (54,132) | (39,850) |
| Cost of capital | (89,371) | (76,954) |
| Embedded value | 2,409,662 | 2,406,628 |
| Group required capital | 257,537 | 262,896 |
| Required capital cover | 7.4 | 7.1 |

## 3. Embedded Value Earnings

The embedded value earnings are derived as follows:

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Embedded value at the end of the year | 2,409,662 | 2,406,628 |
| Embedded value at beginning of the year | 2,406,628 | 2,221,097 |
| Change in embedded value | 3,034 | 185,531 |
| Dividends and new capital | 185,520 | 216,424 |
| Embedded value earnings | 188,554 | 401,955 |
| These earnings can be analysed as follows: | | |
| Expected return on life business in force | 81,376 | 81,699 |
| Value of new business | 115,305 | 132,346 |
| Value at point of sale | 106,046 | 124,054 |
| Expected return to end of year | 9,259 | 8,292 |
| Operating experience variances | 10,438 | 60,784 |
| Mortality/Morbidity | 45,485 | 38,794 |
| Persistency | (13,967) | (9,096) |
| Expenses | 3,464 | 6,057 |
| Other | (24,544) | 25,029 |
| Operating assumption changes | (37,735) | (32,192) |
| Mortality/morbidity | (27,502) | - |
| Persistency | (26,719) | (16,214) |
| Expenses | 1,256 | (6,962) |
| Other | 15,230 | (9,016) |
| Embedded value earnings from operations | 169,384 | 242,637 |

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Investment variances | (5,953) | (12,873) |
| Economic assumption changes | - | 16,053 |
| Interest and Inflation | - | (301) |
| Risk discount rate | - | 16,354 |
| Growth from life business | 163,431 | 245,817 |
| Return on shareholders assets | 319,188 | 102,478 |
| Investment Returns | 154,147 | (9,076) |
| Net profit non-life operations | 165,041 | 111,554 |
| Change in shareholders' fund adjustments | (294,065) | 53,660 |
| Investment losses on treasury shares | - | (10,498) |
| Movement in present value of holding company expenses | (14,282) | (8,033) |
| Movement in fair value of incentive scheme shares | (26,092) | (17,406) |
| Movement in other net worth adjustments | (253,691) | 89,597 |
| Embedded value earnings | 188,554 | 401,955 |
| Fair value adjustments | | |
| Staff share scheme | (16,302) | 9,790 |
| Non-life operations write-up to fair value | 336,360 | 331,486 |
| Group holding expenses | (54,132) | (39,850) |
| Other group operations write-up to fair value | (81,561) | 166,355 |
| Reversal of cross holding adjustment | 96,368 | 107,017 |
| Total | 280,733 | 574,798 |
| Consisting of | | |
| Net asset value adjustments | 334,865 | 614,648 |
| Value of in-force business adjustments | (54,132) | (39,850) |

## 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 2011, 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.

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Value of new business at end of the year | 115,306 | 132,346 |
| Value at point of sale after cost of capital | 106,047 | 124,054 |
| Value at point of sale before cost of capital | 120,487 | 138,846 |
| Recurring premium | 59,105 | 73,023 |
| Single premium | 61,382 | 65,823 |
| Cost of capital at point of sale | (14,440) | (14,792) |
| Expected return to end of year | 9,259 | 8,292 |

## 5. Sensitivity to the Risk Discount Rate

| **Risk Discount Rate** | **12.0% P'000** | **13.0% P'000** | **14.0% P'000** |
|---|---|---|---|
| Shareholder's net assets and fair value adjustments, excluding goodwill | 1,910,576 | 1,910,576 | 1,910,576 |
| Value of in-force business | 534,336 | 499,086 | 466,935 |
| Value before cost of capital | 667,906 | 642,589 | 619,402 |
| Fair value adjustments | (54,132) | (54,132) | (54,132) |
| Cost of capital | (79,438) | (89,371) | (98,335) |
| Embedded value | 2,444,912 | 2,409,662 | 2,377,511 |
| Value of one year's new business at valuation date | 113,603 | 106,047 | 100,445 |
| Value before cost of capital | 126,711 | 120,487 | 116,312 |
| Cost of capital | (13,108) | (14,440) | (15,867) |

## 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:

| | Dec 2011 % p.a | Dec 2010 % p.a |
|---|---|---|
| Risk discount rate | 13.00 | 13.00 |
| Overall investment return (before taxation) | 10.59 | 10.59 |
| Expense inflation rate | 6.50 | 6.50 |

### 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.

### 6.3 Expenses

The structure of the BIHL Group was expected to change significantly in 2011 and Botswana Life Insurance Limited ( BLIL) moved to a new policy administration system. These changes affected expenses significantly. A 6.5% escalation per annum was assumed going forward. (2010:6.5%)

### 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 future premium increases resulting from premium indexation arrangements on new business written during the year to 31 December 2011.

### 6.5 Persistency / Surrender Basis

The assumptions for lapse and surrender rates are based on the results of experience investigations conducted on 30 September 2011 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** | **Dec 2011** | **Dec 2010** |
|---|---|---|
| Equities | 15.0% | 15.0% |
| Hedged equities | 0.0% | 0.0% |
| Property | 10.0% | 10.0% |
| Fixed-interest securities | 25.0% | 25.0% |
| Cash | 50.0% | 50.0% |
| Total | 100.0% | 100.0% |

# EMBEDDED VALUE REPORT

## 6. Assumptions (continued)

### 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 of cost of capital total P'000 | % change |
|---|---|---|---|---|
| **Embedded value at 31 December 2011** | | | | |
| Base | 499,086 | 89,371 | 588,457 | |
| Discontinuance rates decrease by 10% | 533,638 | 89,371 | 623,010 | 5.9% |
| Future expenses decrease by 10% | 519,536 | 89,371 | 608,907 | 3.5% |
| Mortality experience decreases by 5% | 501,425 | 89,371 | 590,796 | 0.4% |
| Investment returns decrease by 1% | 516,492 | 90,672 | 607,164 | 3.2% |
| Risk discount rate decreases by 1% | 534,336 | 79,438 | 613,774 | 4.3% |
| Risk discount rate increases by 1% | 466,935 | 98,335 | 565,270 | (3.9%) |

| | Value of new business P'000 | Cost of capital P'000 | Value before cost of P'000 | % change |
|---|---|---|---|---|
| **Value of one year's new business as at 31 December 2011** | | | | |
| Base | 106,047 | 14,440 | 120,487 | |
| Discontinuance rates decrease by 10% | 115,726 | 14,440 | 130,166 | 8.0% |
| Future expenses decrease by 10% | 107,480 | 14,440 | 121,921 | 1.2% |
| Maintenance and acquisition costs decrease by 10% | 112,449 | 14,440 | 126,889 | 5.3% |
| Mortality experience decreases by 5% | 107,347 | 14,440 | 121,787 | 1.1% |
| Investment returns decrease by 1% | 107,797 | 14,946 | 122,743 | 1.9% |
| Risk discount rate decreases by 1% | 113,603 | 13,108 | 126,711 | 5.2% |
| Risk discount rate increases by 1% | 100,445 | 15,867 | 116,312 | (3.5%) |

**Assumed management action**

No management action has been assumed.

GTWaugh

**GT Waugh**
Statutory Actuary
FIA FASSA

## Weaving, How it all Comes Together

No basket is ever just a result of a random set of occurrences during the weaving process. This is very much how the financial performance of BIHL is governed, methodically and transparently. When you regard a finished basket there is no way to hide substandard workmanship. It is with this thought in mind that the financial reporting at BIHL is carried out. The beauty of these financials comes from the consistent exceptional value that clients of BIHL have received over time. Furthermore good corporate governance insists that all our finances are reported accurately and transparently. Now this is the beauty we at BIHL like to share.

# 04

# Annual Financial **Statements**

# DIRECTORS' REPORT

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 2011.

## 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 2011 of P471 million (31 December 2010: P332 million). Shareholders' equity at 31 December 2011 was P1.691 billion (31 December 2010: P1.374 billion). The results are fully explained in the financial statements.

## Stated Capital

The issued and fully paid share capital at 31 December 2011 and 2010 consists of 281,070,652 ordinary shares.

## Dividends

A gross interim dividend of 25 thebe per share was declared during the year. The directors propose a final dividend of 41 thebe per share; making the total dividend for the year 66 thebe per share (31 December 2010: 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 121,610 (31 December 2010: 119,545). 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 | |
| M. Dawes | |
| J. Hinchliffe | |
| F. Kellerman | |
| M. Mpugwa | |
| H. Werth | |
| M. Seboni | Appointed on 14 September 2011 |
| T. Schultz | Appointed on 01 October 2011 |
| G. Hassam | Group Chief Executive Officer (Appointed on 01 December 2011) |
| A. Tyer | Resigned on 30 September 2011 |
| R.D. Sikalesele-Vaka | Resigned on 31 March 2011 |

## Company Secretary and Registered Address

R. Modikana,
Block 5 Fairgrounds Financial Centre,
Plot 50374
P. O. Box 336,
Gaborone

## Independent Auditors

Ernst and 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

## 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 22 May 2012 and were signed on their behalf by:

**B Dambe-Groth**
Chairperson

**G Hassam**
Group Chief Executive Officer



# INDEPENDENT AUDITORS' REPORT

## 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 2011, 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 141 to 251.

### Directors' Responsibility for the Financial Statements

The Group and Company's directors are resposible 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.

### Auditors' Responsibility

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

# INDEPENDENT AUDITORS' REPORT

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 present fairly, in all material respects the financial position of Botswana Insurance Holdings Limited, Group and Company as of 31 December 2011, 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

Ernst & Young
Certified Auditors
Practicing Member : B. Ndwapi (19980026.25)

31 May 2012

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

# GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2011*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Assets** | | | | | |
| Property and equipment | 2 | 12,561 | 15,854 | 1,118 | 881 |
| Intangible assets | 3 | 146,735 | 140,782 | - | - |
| Longterm Reinsurance assets | 8.7 | 17,467 | 28,409 | - | - |
| Investment property | 4.4 | 361,466 | 232,528 | - | - |
| Investments in associates and joint ventures | 4.5 | 993,583 | 501,142 | - | - |
| **Financial assets at fair value through profit or loss** | | 9,756,100 | 9,694,490 | - | - |
| Bonds (Government, public authority, listed and unlisted corporates) | 4.1 | 4,499,728 | 3,361,182 | - | - |
| Equity investments (Local and foreign) | 4.2 | 4,896,650 | 6,097,371 | - | - |
| Policy loans and other loan advances | 4.3 | 146,540 | 224,448 | - | - |
| Money market instruments | 4.1 | 213,182 | 11,489 | - | - |
| Interest in subsidiaries | 4.5 | - | - | 317,277 | 313,309 |
| Deferred tax asset | 10 | 194 | 1,688 | - | - |
| | | - | - | | |
| Trade and other receivables | 5 | 191,699 | 176,894 | 668 | 84 |
| Related party balances | 19 | - | - | 7,459 | 4,612 |
| Cash, deposits and similar securities | 23 | 1,248,600 | 1,376,228 | 12,323 | 17,997 |
| **Total assets** | | **12,728,405** | **12,168,015** | **338,845** | **336,883** |
| **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 | 468,891 | 320,270 | 12,945 | 12,102 |
| Retained earnings | | 1,091,083 | 923,168 | 96,887 | 85,251 |
| **Total equity attributable to equity holders of parent** | | 1,690,795 | 1,374,259 | 240,653 | 228,174 |
| Non- controlling interests | 9 | 36,050 | 31,588 | - | - |
| **Total equity** | | 1,726,845 | 1,405,847 | 240,653 | 228,174 |
| **Liabilities** | | | | | |
| Policyholder liabilities under: | 8 | 10,587,045 | 10,311,402 | - | - |
| Insurance contracts | 8.1 | 4,573,612 | 3,957,129 | - | - |
| Investment contracts | 8.6 | 6,013,433 | 6,354,273 | - | - |
| Deferred tax liability | 10 | 12,726 | 19,050 | - | - |
| Tax payable | | 11,024 | 28,563 | - | - |
| Related party balances | 19 | 6,691 | 3,960 | 77,146 | 85,389 |
| Trade and other payables | 11 | 384,074 | 399,193 | 21,046 | 23,320 |
| **Total equity and liabilities** | | **12,728,405** | **12,168,015** | **338,845** | **336,883** |

# GROUP CONSOLIDATED INCOME STATEMENT

***For the year ended 31 December 2011***

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **Dec 2011 P'000** | **Dec 2010 P'000** | **Dec 2011 P'000** | **Dec 2010 P'000** |
| **Revenue** | | | | | |
| Net insurance premium income | 12 | 1,767,046 | 1,620,513 | - | - |
| Gross Insurance premium income | | 1,782,053 | 1,639,661 | - | - |
| Insurance premium ceded to reinsurers | | (15,007) | (19,148) | - | - |
| **Other income** | | 1,028,629 | 426,655 | 230,866 | 216,865 |
| Fee revenue | | 110,944 | 137,249 | - | - |
| Investment income | 13.1 | 749,577 | 470,191 | 230,866 | 216,865 |
| Profit on sale of subsidiary | 4.6 | 33,785 | - | - | - |
| Net gains from financial assets held at fair value through profit or loss | 13.2 | 134,323 | (180,785) | - | - |
| **Total revenue** | | **2,795,675** | **2,047,168** | **230,866** | **216,865** |
| **Net insurance and investment contract benefits and claims** | | (1,935,869) | (1,182,594) | - | - |
| Gross insurance benefits and claims | 14 | (927,849) | (736,366) | - | - |
| Reinsurance claims | 14 | 20,390 | 23,842 | - | - |
| Change in liabilities under investment contracts | | (400,986) | (132,674) | - | - |
| Change in policyholder liabilities under insurance contracts | 8.8 | (616,482) | (324,117) | - | - |
| Change in contract liabilities ceded to reinsurers | 8.8 | (10,942) | (13,279) | - | - |
| **Expenses** | | (465,265) | (534,852) | (21,914) | (27,420) |
| Selling expenses | | (219,687) | (297,649) | - | - |
| Administration expenses | 15 | (245,578) | (237,203) | (21,914) | (27,420) |
| **Profit before share of profit of associates and joint ventures** | | 394,541 | 329,722 | 208,952 | 189,445 |
| Share of profit of associates and joint ventures | 4.5 | 133,872 | 72,217 | - | - |
| **Profit before tax** | | 528,413 | 401,939 | 208,952 | 189,445 |
| Income tax expense | 16 | (57,083) | (69,456) | (34,353) | (32,464) |
| **Profit for the year** | | **471,330** | **332,483** | **174,599** | **156,981** |
| **Profit attributable to:** | | | | | |
| - Equity holders of the parent | | 462,973 | 322,550 | 174,599 | 156,981 |
| -Non-controlling interests | | 8,357 | 9,933 | - | - |
| | | 471,330 | 332,483 | 174,599 | 156,981 |
| Earnings per share (thebe) | | | | | |
| - basic | 17 | 174 | 122 | | |
| - diluted | 17 | 173 | 120 | | |

# GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

***For the year ended 31 December 2011***

| | Group | | Company | |
|---|---|---|---|---|
| | **Dec 2011 P'000** | **Dec 2010 P'000** | **Dec 2011 P'000** | **Dec 2010 P'000** |
| Profit for the year | 471,330 | 332,483 | 174,599 | 156,981 |
| Other comprehensive income | | | | |
| Exchange differences on translation of foreign operations | 30,649 | (17,083) | - | - |
| Total comprehensive income for the year | 501,979 | 315,400 | 174,599 | 156,981 |
| Total comprehensive income attributable to: | | | | |
| - Equity holders of the parent | 493,622 | 310,194 | 174,599 | 156,981 |
| - Non-controlling interests | 8,357 | 5,206 | - | - |
| | 501,979 | 315,400 | 174,599 | 156,981 |

# GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2011*

| | Attributable to equity of holders of parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stated capital | Treasury shares | Share based payment reserve | Statutory capital reserves | Solvency reserve | Foreign currency translation reserve | Consolidation reserves | Total-non-distributable reserve | Retained income | Total | Non-controlling interest | Total Equity |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group** | | | | | | | | | | | | |
| ***For the year ended 31 December 2010*** | | | | | | | | | | | | |
| Opening balances | 130,821 | (153,005) | 48,020 | 424,840 | - | 16,365 | (100,324) | 235,896 | 895,087 | 1,261,804 | 35,041 | 1,296,845 |
| Foreign currency translation | - | - | - | - | - | (12,356) | - | (12,356) | - | (12,356) | (4,727) | (17,083) |
| Profit for the year | - | - | - | - | - | - | - | - | 322,550 | 322,550 | 9,933 | 332,483 |
| Total comprehensive income | - | - | - | - | - | (12,356) | - | (12,356) | 322,550 | 310,194 | 5,206 | 315,400 |
| Share based payment expense | - | - | 9,105 | - | - | - | - | 9,105 | - | 9,105 | - | 9,105 |
| (Transfer to statutory reserve)/ Transfer from retained income | - | - | - | 69,328 | - | - | - | 69,328 | (69,328) | - | - | - |
| (Transfer from consolidation reserve)/ Transfer to retained income | - | - | - | - | - | - | (6,197) | (6,197) | 6,197 | - | - | - |
| Cost of treasury shares acquired/(disposed) | - | (65) | - | - | - | - | (496) | (561) | - | (561) | - | (561) |
| Dividends paid | - | - | - | - | - | - | - | - | (216,424) | (216,424) | (8,659) | (225,083) |
| Share Trust vested treasury shares | - | 25,055 | - | - | - | - | - | 25,055 | (14,914) | 10,141 | - | 10,141 |
| **Balance at 31 December 2010** | **130,821** | **(128,015)** | **57,125** | **494,168** | **-** | **4,009** | **(107,017)** | **320,270** | **923,168** | **1,374,259** | **31,588** | **1,405,847** |
| ***For the year ended 31 December 2011*** | | | | | | | | | | | | |
| Opening balances | 130,821 | (128,015) | 57,125 | 494,168 | - | 4,009 | (107,017) | 320,270 | 923,168 | 1,374,259 | 31,588 | 1,405,847 |
| Foreign currency translation | - | - | - | - | - | 30,651 | - | 30,651 | - | 30,651 | (2) | 30,649 |
| Profit for the year | - | - | - | - | - | - | - | - | 462,973 | 462,973 | 8,357 | 471,330 |
| Total comprehensive income | - | - | - | - | - | 30,651 | - | 30,651 | 462,973 | 493,624 | 8,355 | 501,979 |
| Share based payment expense | - | - | 11,308 | - | - | - | - | 11,308 | - | 11,308 | - | 11,308 |
| (Transfer to statutory reserve)/ Transfer from retained income | - | - | - | 79,392 | 954 | - | - | 80,346 | (80,346) | - | - | - |
| (Transfer from consolidation reserve)/ Transfer to retained income | - | - | - | - | - | - | 10,649 | 10,649 | (10,649) | - | - | - |
| Cost of treasury shares acquired/(disposed) | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | - | (185,507) | (185,507) | (3,588) | (189,095) |
| Share Trust vested treasury shares | - | 15,667 | - | - | - | - | - | 15,667 | (18,556) | (2,889) | - | (2,889) |
| Disposal of subsidiary | - | - | - | - | - | - | - | - | - | - | (305) | (305) |
| **Balance at 31 December 2011** | **130,821** | **(112,348)** | **68,433** | **573,560** | **954** | **34,660** | **(96,368)** | **468,891** | **1,091,083** | **1,690,795** | **36,050** | **1,726,845** |
| **Company** | | | | | | | | | | | | |
| ***For the year ended 31 December 2010*** | | | | | | | | | | | | |
| Opening balances | 130,821 | - | - | 9,762 | - | - | - | 9,762 | 112,230 | 252,813 | - | 252,813 |
| Profit for the year | - | - | - | - | - | - | - | - | 156,981 | 156,981 | - | 156,981 |
| Share based payment expense | - | - | 2,340 | - | - | - | - | 2,340 | - | 2,340 | - | 2,340 |
| Dividends paid | - | - | - | - | - | - | - | - | (183,960) | (183,960) | - | (183,960) |
| **Balance at 31 December 2010** | **130,821** | **-** | **2,340** | **9,762** | **-** | **-** | **-** | **12,102** | **85,251** | **228,174** | **-** | **228,174** |
| ***For the year ended 31 December 2011*** | | | | | | | | | | | | |
| Opening balances | 130,821 | - | 2,340 | 9,762 | - | - | - | 12,102 | 85,251 | 228,174 | - | 228,174 |
| Profit for the year | - | - | - | - | - | - | - | - | 174,599 | 174,599 | - | 174,599 |
| Share based payment expense | - | - | 843 | - | - | - | - | 843 | - | 843 | - | 843 |
| Dividends paid | - | - | - | - | - | - | - | - | (162,963) | (162,963) | - | (162,963) |
| **Balance at 31 December 2011** | **130,821** | **-** | **3,183** | **9,762** | **-** | **-** | **-** | **12,945** | **96,887** | **240,653** | **-** | **240,653** |

# GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

***For the year ended 31 December 2011***

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **Dec 2011 P'000** | **Dec 2010 P'000** | **Dec 2011 P'000** | **Dec 2010 P'000** |
| Net cashflows from operating activities | | 263,085 | 718,672 | (589) | 173,258 |
| Cash (utilised in)/generated from operations | 22 | (158,127) | 937,656 | (32,663) | 172,858 |
| Interest received | | 425,096 | 45,502 | 370 | 400 |
| Dividends received from investments/subsidiaries | | 240,041 | 11,118 | 229,021 | 216,424 |
| Dividends received from associates | | 10,832 | - | - | - |
| Tax paid | 16.1 | (69,250) | (59,179) | (34,353) | (32,464) |
| Dividends paid | | (185,507) | (216,425) | (162,963) | (183,960) |
| Net cashflows utilised in investing activities | | (390,713) | (757,432) | (5,086) | (160,723) |
| Purchase of property and equipment | 2 | (6,907) | (2,765) | (1,118) | (881) |
| Purchase of computer software | 3 | (14,672) | (16,913) | - | - |
| Increase in investment in subsidiary | 4.5 | - | - | (3,968) | (56,668) |
| Purchase of investment properties | 4.4 | (48,055) | (84,923) | - | - |
| Proceeds from sale of property | | 6,663 | - | - | - |
| Proceeds from disposal of subsidiary | 4.6 | 2,542 | - | - | - |
| Loans repaid by joint ventures | 4.5 | 3,530 | - | - | - |
| Investment in associate | 4.5 | (325,010) | (115,328) | - | - |
| Net movement in investments | | (8,804) | (537,503) | - | (103,174) |
| Net (decrease)/ increase in cash and cash equivalents | | (127,628) | (38,760) | (5,674) | 12,535 |
| Cash and cash equivalents at the beginning of the year | | 1,376,228 | 1,414,988 | 17,997 | 5,462 |
| Cash and cash equivalents at the end of the year | 23 | 1,248,600 | 1,376,228 | 12,323 | 17,997 |

# REPORT OF THE INDEPENDENT ACTUARY

***For the year ended 31 December 2011***

| **Group** | **Dec 2011 P'000** | **Dec 2010 P'000** |
|---|---|---|
| **Statement of actuarial values of assets and liabilities** | | |
| Total assets as per the statement of financial position | 12,728,405 | 12,168,015 |
| Current liabilities, deferred taxation and minorities as per the statement of financial position | (450,565) | (482,354) |
| Net assets | 12,277,840 | 11,685,661 |
| Actuarial value of policy liabilities | (10,587,045) | (10,311,402) |
| Excess of assets over liabilities | 1,690,795 | 1,374,259 |
| Capital Adequacy Requirement | 128,769 | 131,448 |
| Capital Adequacy Requirement cover | 13.13 | 10.45 |
| **Analysis of change in excess of assets over liabilities** | | |
| Excess assets as at beginning of reporting year | 1,374,259 | 1,261,805 |
| Excess assets as at end of reporting year | 1,690,795 | 1,374,259 |
| Change in excess assets over the reporting year | 316,536 | 112,454 |
| **This change in the excess assets is due to the following factors:** | | |
| Investment income | 34,612 | 77,918 |
| Capital gains | 86,739 | 13,324 |
| Total investment return on shareholders' funds | 121,351 | 91,242 |
| Changes in valuation methods or assumptions | (35,792) | (27,560) |
| Operating profit | 434,497 | 328,324 |
| Taxation | (57,083) | (69,456) |
| Surplus for the year after tax | 462,973 | 322,550 |
| Currency translation | 30,651 | (12,356) |
| Movement in consolidation reserve | - | (561) |
| Changes in share based payment and treasury shares | 8,419 | 19,246 |
| Total earnings | 502,043 | 328,879 |
| Dividends paid | (185,507) | (216,425) |
| Total change in excess assets | 316,536 | 112,454 |

# REPORT OF THE INDEPENDENT ACTUARY

***For the year ended 31 December 2011***

## Certification of financial position

I hereby certify that:

- the valuation of Botswana Insurance Holdings Limited as at 31 December 2011, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary Report has been produced in accordance with, the Botswana Insurance Industry Act (Chapter 46:01) and the professional guidance notes of the Actuarial Society of South Africa ("ASSA"), PGN103 (2005) and PGN104;

- the Group was financially sound as at the valuation date and, in my opinion, is likely to remain financially sound for the foreseeable future.

***Changes in valuation methods or assumptions of assets and liabilities***

The value of the policyholder liabilities as at 31 December 2011 increased by P35.8 million as a result of changes in valuation assumptions and methodology. The components of this were as follows:

| | **Dec 2011 P million** | **Dec 2010 P million** |
|---|---|---|
| Mortality | 30.1 | - |
| Lapse and surrender assumptions | 9.4 | 6.2 |
| Expenses | (3.9) | 7.1 |
| Economic | - | (1.2) |
| Other | 0.2 | 15.4 |
| Total | 35.8 | 27.5 |

***Valuation Methods and Assumptions***

The valuation was performed using the Financial Soundness Valuation method for insurance contracts and for investment contracts with participation in profits on a discretionary basis. Investment contracts without discretionary participation features have been valued in terms of IAS 39 Financial Instruments: Recognition and Measurement.

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

Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other. A financial soundness valuation gives a statement of the financial position of a life assurance company, according to a realistic or best estimate set of assumptions regarding future investment returns, bonus rates, expenses, persistency, mortality and other factors that may impact on the financial position of the company. These assumptions are based on past experience and anticipated future trends. In particular, provision is made for the expected impact of AIDS on the experience of the company. The liability calculations also make allowance for the reasonable benefit expectations of policyholders, which may exceed the minimum contractual obligations of the Group.



## Liability Valuation Methods and Assumptions

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

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

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

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

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

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

For reversionary bonus policies, a gross premium valuation was done. Future bonuses were provided for at the latest declared reversionary bonus rates and at final bonus rates supported by the assumed investment return of 10.8% p.a. A discount rate of 10.8% per annum (2010: 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 gross premium valuation was done. Future bonuses were provided for at bonus rates that would be declared should an investment return of 10.8% per annum be earned. A discount rate of 10.8% per annum (2010: 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.

# REPORT OF THE INDEPENDENT ACTUARY

***For the year ended 31 December 2011***

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.

Margins are as follows:

- Compulsory margins prescribed by PGN104
- Discretionary margins as follows to release profits consistent with policy design:
  - The mortality basis has been increased to reflect uncertainty due to AIDS, by the addition of an extra 94.78% for females and 63.33% for males 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 17.8% (inclusive of prescribed margin)
  - The surrender rates have been increased by 25% of the best estimate assumption (inclusive of prescribed margin)
  - Additional reserves are created to ensure that no policy is treated as an asset

A more detailed description of the individual elements of the basis follows below.

***Economic parameters***

The best estimate assumptions for the major investment parameters are based on estimated future inflation. The current Botswana inflation rate was not used as it was believed to be a short term spike. The estimate for the future expected Botswana inflation was obtained from an economist.The assumptions quoted below are before the allowance for compulsory and discretionary margins and tax:

| | Dec 2011 | Dec 2010 |
|---|---|---|
| | % | % |
| Gilt return | 9.5 | 9.5 |
| Equity return | 13.0 | 13.0 |
| Property return | 10.5 | 10.5 |
| Cash return | 8.5 | 8.5 |
| Average return | 10.5 | 10.6 |

***Bonus Rates***

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

"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."



***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 experience investigations were done as at the end of November 2011.

***Expenses***

Provision for expenses (before adding margins) starts at a level consistent with the company's current experience and allows for a 6.5% escalation per annum thereafter (2010: 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 PGN 104 of the Actuarial Society of South Africa.

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

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the ordinary capital adequacy requirements (OCAR), it has been assumed that assets backing the capital adequacy requirements are invested 25% in fixed interest assets (2010: 25%), 15% in equities (2010: 15%), 10% in property (2010: 10%), and 50% in cash (2010:50%).

The ratio of accumulated surplus to the Capital Adequacy Requirement of P128.8 million (December 2010: P131.4 million) is 13.13 times (December 2010: 10.45 times).

**G.T Waugh**
Statutory Actuary
09 May 2012

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

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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.

## 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 187. 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 2011:

**IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised)**

The IASB issued an amendment to IFRS 1 to allow the first-time adopters to utilise the transitional provision in IFRS 7 Financial Instruments: Disclosures, relieving them from providing comparative information in the disclosures required by the amendment in the first year of application. The Group is not a first time IFRS adopter and therefore amendments to IFRS 1 have no impact on the financial statements.

**IAS 24 Related Party Disclosures (amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011 and must be applied retrospectively. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities. The Group was not impacted by this amendment. The Group does not expect any impact on its financial position or performance.

**IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)**

Some companies that are subject to a minimum funding requirement may elect to pre-pay their pension contributions. The pre-paid contributions are recovered through lower minimum funding requirements in future years. An unintended consequence of interpretation, prior to this amendment, was that IFRIC 14 could prevent the recognition of an asset for any surplus arising from such voluntary pre-payment of minimum funding contributions in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances. This amendment does not impact the Group as it participates in a defined contribution scheme.

**IFRIC 19 Extinguishing Financial Liability with Equity Instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010 and must be applied retrospectively if the amendment constitutes a change in accounting policy. The interpretation clarifies that equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately

>

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Changes in Accounting Policies (continued)

in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

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

**Improvements to IFRSs (issued in 2010)**
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have been applied for the financial year ended 31 December 2011. The improvements had no material effect on the financial statements of the group, unless stated otherwise.

**IFRS 1:** The improvement includes accounting policy changes in year of adoption; revaluation basis as deemed cost; and use of deemed cost for operations subject to rate regulation.

**IFRS 3:** The amendment includes the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; measurement of non-controlling interests and unplaced and voluntarily replaced share-based payments awards.

**IAS 1:** Clarification of statement of changes in equity.

**IAS 34:** Amendment is on significant events and transactions.

**IFRIC 13:** Fair value of award credits.

**IAS 27:** Consolidated and Separate Financial Statements.

**IFRS 7:** Financial Instruments: Disclosures.
This improvement to IFRS 7 could lead to a possible reduction of disclosures regarding financial instruments at year-end.

**Standards issued but not yet effective**
Standards 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.



**Amendment to IFRS 7 Disclosures on transfers of financial assets**
The new disclosure requirements apply to transferred financial assets. An entity transfers the contractual rights to receive cash flows of the asset to another party. Alternatively, a transfer takes place when the entity retains the contractual rights of the financial asset but assumes a contractual obligation to pay the cash flows to another party, as is often the case when factoring trade receivables. The effective date of the amendment is 1 July 2011. There will be no impact in the financial statements as currently the Group has not transferred any financial assets, however if any such transactions take place in the future additional disclosures will be provided.

**Amended IFRS 1 First-time adoption**
The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting, or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The effective date of the amendment is 1 July 2011. This amendment does not affect the Group as we have always adopted International Financial Reporting Standards.

**Amendments to IAS 1 Presentation of Financial Statements**
The amendments to IAS 1 require changes to the presentation of other comprehensive income. Items that could 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 will not affect the Group as all assets are fair-valued through profit and loss.

**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.

**Amended IAS 12 Income Taxes**
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 standard is not expected to impact the reported

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Changes in Accounting Policies (continued)

financial performance of the Group. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

**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 or loss. The financial impact is not expected to be significant because the Group classifies its financial assets at fair value through profit or loss and is likely to choose the fair value option when the standard is adopted since it meets the criteria. The treatment prescribed regarding financial liabilities is more or less similar to what is currently required by IAS 39.

**IFRS 10 Consolidated Financial Statements**

IFRS 10 reflects the requirements for determining when a reporting entity controls another entity, and the principles applied when preparing consolidated financial statements replacing IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation- Special Purpose Entities. The standard is effective for annual periods on or after 1 January 2013. The adoption of IFRS 10 will have an effect on the consolidation scope, profit and equity of the Group. The Group decides not to early adopt the standard.

**IFRS 11 Joint Arrangements**

IFRS 11 defines the joint arrangements with joint control, and reflects the principles applied when preparing consolidated financial statements replacing IAS 31 Interest in Joint ventures and SIC-13 Jointly-controlled Entities- Non monetary Contributions by Venturers. The standard is effective for annual periods on or after 1 January 2013. The adoption of IFRS 11 is expected to have an effect on the profit and equity of the Group.

**IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 includes all the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. 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.

**IFRS 7 Financial Instruments-Disclosures**

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from transferred financial instruments to which the entity is exposed at the end of the reporting period. The standard was also amended to include additional disclosure regarding rights of set-off and similar arrangements for financial instruments at year-end. The effective date of the amendment is 1 January 2013.

**IAS 32 Financial instruments - Presentation**

The amendment alters the definition of a financial liability in IAS 32. It classifies certain rights issues, options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group did not enter into any rights issue, options or warrants which would be affected by this amendment. The standard will not have any effect on the Group's financial position or performance. The amendment is effective for financial years beginning on or after 1 January 2014

**IAS 27 Separate Financial Statements (as revised in 2011)**

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

## 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 |

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Abbreviations and Key (continued)

**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:<br>a) that are likely to be a significant portion of the total contractual benefits;<br>b) whose amount or timing is contractually at the discretion of the issuer; and<br>c) that are contractually based on:<br>i. the performance of a specified pool of contracts or a specified type of contract<br>ii. realised and/or unrealised investment returns on a specified pool of assets held by the insurer; or<br>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. |

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Abbreviations and Key (continued)

| | |
|---|---|
| **IBNR** | Claims incurred by the policyholder but not yet reported to the insurance company. |
| **Embedded value** | This is an estimate of the economic worth of a life insurance business. The measurement principles however do differ from the measurement principles under IFRS. |
| **IFRS 4** | International Financial Reporting Standard that regulates Insurance Contracts. |

**A glossy of share-based payment specific terminology:**

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

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Abbreviations and Key (continued)

| | |
|---|---|
| **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<br>(a) cash or other assets of the entity for amounts that are based on the price (or value) equity instruments (including shares or share options) of the entity, or another group entity, or<br>(b) equity instruments of the entity (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. |
| **Share-based-payment transaction** | A transaction in which the entity<br>(a) receives goods or services as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services (including an employee) in a share-based payment arrangement, or<br>(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods and services for amounts that are based on the price of the entity's shares or other equity instruments of the entity. |
| **Share option** | A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time. |
| **Vest** | To become an entitlement. Under a share-based payment arrangement, a 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 determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the 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 current market returns as well as expectations about future economic and financial developments.

The balance of policyholder liabilities at 31 December 2011 was 4,574 million (31 December 2010: P3, 957 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. The carrying amount of un-quoted equity and other loan advances at year end was P146.5 million (2010: P224.4 million).

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Significant Accounting Judgements, Estimates and Assumptions (continued)

***(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 P0.9 million (31 December 2010: P1.5 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 P4,574 million (31 December 2010: P3,957 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 P 20.1 million (31 December 2010: P19.8 million)

**Provision for future bonuses**

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

**Reversionary bonus business**

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

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Significant Accounting Judgements, Estimates and Assumptions (continued)

**Individual stable bonus and market-related business**

For policies where the bonuses are stabilised or directly related to the return on the underlying investment portfolios, the liabilities are equated to the retrospectively accumulated fair value of the underlying assets. No second tier margins are held on this business, except to the extent that negative Pula reserves are eliminated. The carrying amount is P21.0 million (31 December 2010: P22.3 million)

**Participating annuities**

There are very few such policies on the book. Those that are participating annuities have been in force for three years. The carrying amount of participating annuities is P48.6 million (31 December 2010: P48.0 million)

**Non-participating annuity business**

Non-participating life annuity instalments and future expenses in respect of these instalments are discounted at market interest rates based on the bond yield curve at the valuation date, reduced by the prescribed and additional margin, as well as investment management expenses. All profits or losses accrue to the shareholders when incurred. A discretionary margin is held for this block of business. The carrying amount for non participating annuity business is P2.629 billion (31 December 2010: P2.095 billion)

**Other non-participating business**

Other non-participating business forms less than 1% of the total liabilities. Most of the other non-participating business liabilities are valued on a discounted cash flow basis at interest rates based on the bond yield curve at the valuation date. The carrying amount for other non participating business is P265.2 million (31 December 2010: P182.9 million)

**HIV/AIDS**

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

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

**Provision for minimum investment return guarantees**

In addition to the liabilities described above, provision is made consistent with actuarial guidance note PGN 110 for the possible cost of minimum investment return guarantees provided by the annuity business. Additional mismatch reserves are also held on the annuity business. The carrying amount for the mismatch reserve is P 31.0 million (31 December 2010: P16.6 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.

## 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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

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

***c) Deposit administration fund income***

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

***d) Fee income – long-term policy contracts***

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

***e) Premium income***

The monthly premiums in terms of the policy contracts are accounted for when due. Group life insurance premiums are accounted for when receivable. Where premiums are not determined in advance, they are accounted for upon receipt. Single premiums on insurance contracts are recognised as income when received.

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

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

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

***f) Reinsurance recoveries***

The Group cedes insurance risk on risk policies with an insured value that exceeds a certain threshold which is set and revised by management from time to time. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.
Contracts entered into with reinsurers under which the Group is compensated for losses on one or more long-term policy contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as long-term reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the 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 its amortised cost at the reversal date

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. As at year end the reinsurance contracts the Group entered into during the year had impact of P1.3 million loss (31 December 2010: 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 2011. 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:

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

- 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 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.

## Summary of Significant Accounting Policies (continued)

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.

***(a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if:***

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Upon initial recognition it is designated by the entity as at fair value through profit or loss, because either
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The fair values of quoted investments are based on the quoted market bid prices at the close of business on the 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 rate 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

## Summary of Significant Accounting Policies (continued)

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**

***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.

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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

> 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.

***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 >

## Summary of Significant Accounting Policies (continued)

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 is included in the carrying amount of the asset if the recognition criteria are met. Major renovations are depreciated over the remaining useful life of the related asset.

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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal





proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

**Intangible assets**

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

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

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.

***(i) Computer software***

Generally costs associated with researching computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable system, which will be controlled by the Group and which have a probable benefit beyond one year, are recognised as an asset. Computer software development costs are recognised as intangible asset only when the 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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

***(ii) 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 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

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## Summary of Significant Accounting Policies (continued)

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 relating to items recognised directly in equity is recognised in other comprehensive income and not in the income statement. 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***

Taxation is provided in the financial statements using the gross method of taxation. Current taxation is charged on the net income for the year after taking into account income and expenditure, which is not subject to taxation, and capital allowances on fixed assets. Withholding tax on dividends paid is set off against the additional company taxation of the Group in the year in which the dividends are paid.

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax relating to items recognised directly in equity is recognised in 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

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

> 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 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 account for the awards as cash settled while the Holding Company accounts for the awards as equity settled.

**Equity-settled transactions**

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The 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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

**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.

**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 can 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-

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# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

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.

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

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

- To ensure that the Group has sufficient assets in the event that liabilities exceed the value of assets,
- To provide against reinvestment risk that arises as a result of the duration of the assets being shorter than the liabilities. The shorter term of the assets may result in future asset proceeds being re-invested on less favourable terms than were available at policy inception. The 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 actuarial value of the policy liabilities is determined using the FSV method as described in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (Actuarial Society), which is consistent with the valuation method prescribed in the LTIA and consistent with 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 best estimate of future
- shareholders consistent with policy design and company policy.

The value of policy liabilities at 31 December 2011 exceeds the minimum requirements in terms of the LTIA, PGN 104 and PGN 110. The application of actuarial guidance, as set out in PGN 104 and PGN 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.

**Insurance contracts with discretionary participating feature (DPF):**

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the issuer and
- that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realised and or unrealised investment returns on a specified pool of assets held by the issuer or profit or loss of the company, fund or other entity that issues the contract.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

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

Insurance contract liabilities with DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract. It is also assumed that current bonus levels will continue for the duration of the contract.

**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 without DPF are recognised when contracts are entered into and premiums are charged.



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

Fees charged and investment income received is recognised in the income statement when earned.

Fair value adjustments are performed at each reporting date and are recognised in the income statement. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the statement of financial position date. The fund assets and liabilities used to determine the unit-prices at the statement of financial position date are valued on the bases as set out in the accounting policy for investments. It was not considered necessary to exclude intangible assets, which are inadmissible assets for prudential regulatory purposes, from the value of the assets for the purposes of the financial statements.

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

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

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 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;

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# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

### 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 2011 and 31 December 2010

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.

| | Dec 2011 P000 | Dec 2010 P000 |
|---|---|---|
| Shareholder's equity | 1,726,845 | 1,405,847 |
| Group required capital | 128,769 | 131,448 |
| Capital adequacy requirement ( CAR) Cover (times) | 13.13 | 10.45 |

### 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 80 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

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

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

- The BIHL Group Enterprise Risk Management (ERM) Policy;
- Group Risk Escalation Policy;
- 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 mange, 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 139 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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

***Compliance risk***

*Laws and regulations:*

BIHL considers compliance with applicable laws, industry regulations and codes an integral part of doing business. The Group compliance function, together with the compliance functions of the Group businesses, facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

*Compliance with client mandates:*

Rules for clients' investment instructions are loaded on an order management system, which produces post trade compliance reports that are continuously monitored. On a monthly basis, these reports are manually compared with the investment instructions. When a possible breach is detected, the portfolio manager is requested to confirm whether a breach has taken place, to explain the reason for the breach and indicate when it will be rectified (which is expected to be as soon as possible). Further action may be taken, depending on the type of breach. The detailed results of the mandate monitoring process are discussed with the Head of Investment Operations on a monthly basis.

***Fraud risk***

The BIHL group recognises that financial crime and unlawful conduct are in conflict with the principles of ethical behaviour, as set out in the Group's code of ethics, and undermines the organisational integrity of the Group. The financial crime combating policy for the BIHL group is designed to counter the threat of financial crime and unlawful conduct. A zero-tolerance approach is applied in combating financial crime and all offenders will be prosecuted. The forensic services function at Group level oversees the prevention, detection and investigation of incidents of unlawful conduct that are of such a nature that they may have an impact on the Group or the executive of a business cluster. Group Forensic Services is also responsible for the formulation of Group standards in respect of the combating of unlawful conduct and the implementation of measures to monitor compliance with these standards.

The Chief Executive of each business cluster is responsible for the implementation of the policy in his or her respective business and is accountable to the Board of BIHL. Quarterly reports are submitted by Group Forensic Services to the BIHL Audit and Risk Committee on the incidence of financial crime and unlawful conduct in the Group and on measures taken to prevent, detect, investigate and deal with such conduct.

***Legal risk***

Legal risk is the risk that the business will be exposed to contractual obligations that have not been provided for, particularly in respect of policy liabilities. The risk also arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of Group's counter-parties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations.

During the development stage of any new product and for material transactions entered into by the business, the legal resources of the business monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The Group seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

***Lapse risk***

Distribution models are used by the business to identify high risk clients. Client relationship management programmes are aimed at managing client expectations and relationships to reduce lapse rates. The design of insurance products excludes material surrender value guarantees, subject to regulatory constraints, to limit financial loss at surrender. Lapse experience is monitored to ensure that negative experience is identified on a timely basis and corrective action taken. The business's reserving policy is based on actual experience to ensure that adequate provision is made for lapses.

***Legislation risk***

The risk is managed as far as possible through clear contracting. The business monitors and influences events to the extent possible by participation in discussions with legislators, directly and through industry organisations.

***Taxation risk***

The risk is addressed through clear contracting to ensure that policy contracts entitle policyholders to after tax returns, where applicable. The business's internal tax resources monitor the impact of changes in tax legislation, participate in discussions with the tax legislator to influence changes in legislation and are involved in the development of new products. External tax advice is obtained as required.

***Reputation risk***

Actions with a potential reputational impact are escalated to the appropriate level of senior management. The Audit and Risk Committee and Board of Directors are involved as required. Events with an industry-wide reputational impact are addressed through industry representative groups.

***Strategy risk***

The Group's governance structure and various monitoring tools in place ensure that any events that affect the achievement of the Group's strategy are escalated and addressed at the earliest opportunity. The Board has no tolerance for any breach of guidance.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of significant accounting policies (continued)

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' 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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

***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 2011 | Dec 2010 |
|---|---|---|
| The mean duration of non-participating annuity liabilities is: | 7.53 years | 8.04 years |
| The mean duration for the supporting assets is: | 7.64 years | 7.60 years |

The loss from a 1% parallel fall in interest rates is approximately P8.9 million (2010: 7.5 million)

The table below indicates the impact of changes in assumptions

Policy liabilities in respect of Insurance contracts

| **2011**<br>**P'000** | **Base value** | **Investment returns** | **Expenses** | **Expense inflation** | **Lapse and surrender rates** | **Mortality & morbidity rates** |
|---|---|---|---|---|---|---|
| | | **-1%** | **-10%** | **+1%** | **-10%** | **+10%** |
| Individual Life Business | 1,643,021 | 1,628,312 | 1,634,859 | 1,628,870 | 1,6 33,328 | 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 |

| **2010**<br>**P'000** | **Base value** | **Investment returns** | **Expenses** | **Expense inflation** | **Lapse and surrender rates** | **Mortality & morbidity rates** |
|---|---|---|---|---|---|---|
| | | **-1%** | **-10%** | **+1%** | **-10%** | **-10%** |
| Individual Life Business | 1,532,533 | 1,534,532 | 1,537,615 | 1,535,659 | 1,539,863 | 1,542,800 |
| Annuity Business | 2,138,873 | 2,251,223 | 2,141,830 | 2,142,159 | 2,138,873 | 2,153,868 |
| Group Life Business | 285,722 | 285,722 | 288,579 | 286,151 | 285,722 | 304,293 |
| Total | 3,957,128 | 4,071,477 | 3,968,024 | 3,963,969 | 3,964,458 | 4,000,961 |



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**

| **2011** | **Effect on profit before 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 |

| **2010** | **Effect on profit before tax P'million** |
|---|---|
| Base Assumption | 656.3 |
| Increase risk discount rate by 1,0% to 14% | 633.0 |
| Decrease risk discount rate by 1,0% to 12% | 682.5 |
| Investment return (and inflation) decreased by 1,0%, coupled with a 1,0% decrease in risk discount rate to 12%, and with bonus rates changing commensurately | 679.9 |
| Maintenance unit expenses (excluding investment expenses) decrease by 10% | 674.4 |
| Discontinuance rates decrease by 10% | 689.8 |
| Mortality and morbidity decreased by 5% for assurances, coupled with a 5% decrease in mortality for annuities | 655.6 |
| Equity assets fall by 10% | 625.2 |

***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.

# BASIS OF PRESENTATION AND ACCOUNTING POLICIES

## Summary of Significant Accounting Policies (continued)

> 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 13.13 times (31 December 2010: 10.45 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, expressed as percentages of the relevant long-term policy liabilities The figures below represent the benefits payable on the occurrence of the insurance event and not the liability held in the balance sheet in relation to the insured benefit.

**Benefits insured per individual life**

| | | | Before reinsurance | | After reinsurance | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | No. of lives | No. of lives | Pula P'000 | Pula P'000 | Pula P'000 | Pula P'000 |
| 0 - 500 | 640,488 | 623,059 | 6,823,300 | 6,952,981 | 6,662,925 | 6,257,683 |
| 500 - 1 000 | 427 | 316 | 293,427 | 192,535 | 43,900 | 31,600 |
| 1 000 - 5 000 | 270 | 214 | 377,282 | 296,644 | 30,905 | 21,400 |
| 5 000 - 8 000 | 3 | 1 | 20,274 | 9,193 | 300 | 100 |
| >8 000 | 3 | 1 | 33,358 | 13,913 | 300 | 100 |
| | 641,191 | 623,591 | 7,547,641 | 7,465,266 | 6,738,330 | 6,310,883 |

**Non-participating annuity payable per annum per life insured**

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | No. of lives | No. of lives | P'000 | P'000 |
| 0-20 | 2,165 | 2,006 | 22,089 | 19,866 |
| 20-40 | 1,069 | 1,069 | 34,674 | 30,918 |
| 40-60 | 829 | 727 | 41,431 | 35,694 |
| 60-80 | 508 | 427 | 35,874 | 29,752 |
| 80-100 | 389 | 323 | 35,029 | 28,846 |
| >100 | 555 | 438 | 81,872 | 65,518 |

**Fair values**

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



# NOTES TO THE FINANCIAL STATEMENTS

## 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 2011 and 2010 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 2011, 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

NOTES TO THE FINANCIAL STATEMENTS

## 1 Segmental Analysis (continued)

| | Life Business | | Asset Management | | Other | | Inter Group Transactions | | Consolidated Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Segment information by products and services** | | | | | | | | | | |
| Premium revenue | 1,743,826 | 1,603,675 | - | - | 23,220 | 16,838 | - | - | 1,767,046 | 1,620,513 |
| Fee revenue | | | | | | | | | | |
| - Internal | - | - | - | - | - | - | - | - | - | - |
| - External | - | - | 112,095 | 128,109 | 2,894 | 9,140 | (4,045) | - | 110,944 | 137,249 |
| Investment income | 302,540 | 301,272 | 457,630 | 166,348 | 256,514 | 245,056 | (267,107) | (242,485) | 749,577 | 470,191 |
| Profit on sale of subsidiary | - | - | 33,785 | - | - | - | - | - | 33,785 | - |
| Fair value gains and losses | 156,698 | (179,458) | 45,031 | 97,792 | - | - | (67,406) | (99,119) | 134,323 | (180,785) |
| Total net income | 2,203,064 | 1,725,489 | 648,541 | 392,249 | 282,628 | 271,034 | (338,558) | (341,606) | 2,795,675 | 2,047,071 |
| Profit for the year before tax | 315,859 | 247,564 | 97,008 | 119,761 | 192,857 | 198,412 | (77,311) | (163,798) | 528,413 | 401,939 |
| Depreciation | 3,761 | 3,670 | 725 | 1,267 | 314 | 160 | - | - | 4,800 | 5,097 |
| Amortisation | 1,836 | 1,113 | - | - | - | - | - | - | 1,836 | 1,113 |
| Share-based expense | 6,404 | 12,984 | - | - | 843 | 2,340 | 4,061 | (973) | 11,308 | 14,351 |
| Income tax expense | 32,649 | 46,083 | 11,041 | 21,422 | 33,275 | 34,415 | (19,882) | (32,464) | 57,083 | 69,456 |
| Total Assets | 5,899,616 | 5,144,615 | 9,418,825 | 9,829,495 | 1,338,274 | 845,448 | (3,928,310) | (3,651,543) | 12,728,405 | 12,168,015 |
| Total Liabilities | 4,855,559 | 4,242,318 | 9,066,427 | 9,518,851 | 783,076 | 435,145 | (3,703,502) | (3,434,145) | 11,001,560 | 10,762,169 |
| Capital expenditure | 17,476 | 18,437 | 685 | - | 3,418 | 42,360 | - | - | 21,579 | 60,797 |
| Associates and joint venture | | | | | | | | | | |
| Share of profit of associates | - | - | 1,898 | 1,740 | 131,974 | 70,477 | - | - | 133,872 | 72,217 |
| investment in associates | - | - | 72,622 | 12,390 | 920,961 | 488,752 | - | - | 993,583 | 501,142 |

## 2 Property and Equipment

**Group**

| 2011 | 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 |
|---|---|---|---|---|---|---|
| **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 |
| Disposals | (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 |
| **2010** | | | | | | |
| **Cost** | | | | | | |
| **At 1 January 2010** | 17,619 | 18,579 | 5,303 | 10,157 | 3,791 | 55,449 |
| Additions | 940 | 1,826 | - | - | - | 2,766 |
| Foreign currency translation differences | (554) | (570) | - | - | - | (1,124) |
| **At 31 December 2010** | **18,005** | **19,835** | **5,303** | **10,157** | **3,791** | **57,091** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2010 | 12,918 | 9,339 | 4,711 | 9,008 | 986 | 36,962 |
| Current year charge | 1,367 | 2,464 | - | 281 | 986 | 5,098 |
| Disposals | (256) | (567) | - | - | - | (823) |
| **At 31 December 2010** | **14,029** | **11,236** | **4,711** | **9,289** | **1,972** | **41,237** |
| **Carrying amount** | | | | | | |
| At 1 January 2010 | 4,701 | 9,240 | 592 | 1,149 | 2,805 | 18,487 |
| At 31 December 2010 | 3,976 | 8,599 | 592 | 868 | 1,819 | 15,854 |

**Company**

| 2011 | Furnitures and fittings P'000 | Leasehold improvements P'000 | Total P'000 |
|---|---|---|---|
| **Cost** | | | |
| At 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 |
| **2010** | | | |
| **Cost** | | | |
| At 1 January 2010 | - | - | - |
| Additions | 881 | - | 881 |
| Disposals | - | - | - |
| **At 31 December 2010** | **881** | **-** | **881** |
| Accumulated depreciation | | | |
| At 1 January 2010 | - | - | - |
| Current year charge | - | - | - |
| **At 31 December 2010** | **-** | **-** | **-** |
| Carrying amount | | | |
| At 1 January 2010 | - | - | - |
| At 31 December 2010 | 881 | - | 881 |

## 3 Intangible Assets

| 2011 | Goodwill P'000 | Computer software P'000 | Total P'000 |
|---|---|---|---|
| **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** |
| **2010** | | | |
| **Cost** | | | |
| At 1 January 2010 | 79,446 | 16,117 | 95,563 |
| Additions | 42,360 | 16,913 | 59,273 |
| **At 31 December 2010** | **121,806** | **33,030** | **154,836** |
| **Accumulated amortisation** | | | |
| At 1 January 2010 | - | 12,941 | 12,941 |
| Current year amortisation | - | 1,113 | 1,113 |
| **At 31 December 2010** | **-** | **14,054** | **14,054** |
| **Carrying amount** | | | |
| At 1 January 2010 | 79,446 | 3,176 | 82,622 |
| **At 31 December 2010** | **121,806** | **18,976** | **140,782** |

**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

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Carrying amount of goodwill | | |
| Asset management business | 72,563 | 79,446 |
| Non-Life insurance | 42,360 | 42,360 |
| Total | 114,923 | 121,806 |

Managent estimates that the recoverable amounts of the cash generating units (CGUs) exceed the carrying amounts. Management estimates include a review of the performance of CGUs when compared to estimates applicable at the original recognition of the goodwill. The performance of the CGUs 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 inflation targets.

## 4 Investments

**Fair values**

At 31 December 2011 and 31 December 2010, the carrying value of financial instruments reported in the financial statements approximate their value.

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| ***Investments designated at fair value through profit or loss*** | | | | |
| At the beginning of the year | 9,694,490 | 9,189,297 | - | - |
| Net movement | (277,771) | 57,685 | - | - |
| Revaluations | 339,381 | 447,508 | - | - |
| At the end of the year | 9,756,100 | 9,694,490 | - | - |
| **4.1 Bond, notes, policy loans and similar securities** | | | | |
| Designated at fair value through profit or loss | | | | |
| Bonds (Government, public authority, listed and unlisted corporates) | 4,499,728 | 3,361,182 | - | - |
| Money market instruments | 213,182 | 11,489 | - | - |
| Policy loans and other loan advances (Note 4.3) | 146,540 | 224,448 | - | - |
| | 4,859,450 | 3,597,119 | - | - |

The bonds are made up of both listed and unlisted bonds. Listed bonds have fixed interest rates which range from 8.90% 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 3.5% for 2011 (2010: 5.34%). All money market instruments are of a short term nature, being exercisable within one year of year end.

## 4 Investments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **4.2 Equity investments** | | | | |
| Listed in Botswana | 1,209,630 | 1,182,453 | - | - |
| Listed foreign markets | 3,662,090 | 4,903,716 | - | - |
| Unlisted | 24,930 | 11,202 | - | - |
| | 4,896,650 | 6,097,371 | - | - |
| **Sectoral analysis for bonds, money market and equity instruments** | | | | |
| Consumer discretionary | 351,970 | 100,761 | - | - |
| Consumer staples | - | - | - | - |
| Industrials | 71,261 | 84,419 | - | - |
| Financials | 3,709,394 | 3,629,011 | - | - |
| Information technology | - | 8,932 | - | - |
| Energy | 26,859 | 32,575 | - | - |
| Education | 59,846 | 56,616 | - | - |
| Property | 348,245 | 188,788 | - | - |
| Tourism | 71,372 | 15,321 | - | - |
| Offshore foreign equities | 3,662,090 | 4,903,716 | - | - |
| Government | 1,308,523 | 449,903 | - | - |
| Other | 146,540 | 224,448 | - | - |
| | 9,756,100 | 9,694,490 | - | - |

**Listed financial assets:**

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

**Unlisted financial assets:**

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

The valuation is based on assessment of risk in comparison to similar market based instruments. The risk assumed is specific to each instrument and is used to determine 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 (2010: 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.

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **4.3 Policy loans and other loan advances** | | | | |
| Opening balance | 224,448 | 304,730 | - | - |
| New loans | 42,472 | 75,002 | - | - |
| Interest charges | 9,136 | 34,892 | - | - |
| Repayments | (80,219) | (161,991) | - | - |
| Impairment | (911) | (1,530) | - | - |
| Induplum Interest | - | (9,206) | - | - |
| Fair value movement | (48,386) | (17,449) | - | - |
| | 146,540 | 224,448 | - | - |
| Loans secured against the company's insurance policies | 139,785 | 157,886 | - | - |
| Other loans | 6,755 | 66,562 | - | - |

***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 31 December 2011 was 18% (2010: 21.5%)

As at the year end, an amount P911 ,000 (2010:P1,5 million) was charged to the income statement as impairment. All policy loans are secured against investment assets on insurance contracts and limits to the loan amount that can be taken is built into policy loan contract.

***Other loans***

The loans are advances to Public Private 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% (2010: 11%)

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

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **4.4 Investment property** | | | | |
| At beginning of the year | 232,528 | 137,719 | - | - |
| Purchases of investments | 48,055 | 84,923 | - | - |
| Revaluations | 80,883 | 9,886 | - | - |
| | 361,466 | 232,528 | - | - |

## 4 Investments (continued)

**4.4 Investment property (continued)**

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 2011 and 31 December 2010 for the current and previous years respectively. Knight Frank is an industry specialist in valuing these types of investment properties.

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

Direct operating expenses are borne by the tenants in these properties. There are no restrictions on the realisability of the investment properties or the remittance of income and proceeds of disposal. There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintanace or enhancements.

The valuation has been undertaken on the assumption that the properties are free of any structural fault, rot, infestation or defects of any other nature, including inherent weaknesses due to the use in construction of deleterious materials.

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **4.5 Interest in associates / joint ventures and subsidiaries (subsidiaries at company level)** | | | | |
| Carrying amounts at beginning of the year | 501,142 | 321,054 | 313,309 | 153,467 |
| Share of results after tax | 133,872 | 72,217 | - | - |
| Dividend received | (10,832) | (7,737) | - | - |
| Loans repaid by joint ventures | (3,530) | - | - | - |
| Investment in Employee Share Scheme Trust | - | - | - | 103,174 |
| Reclassification of subsidiary to associate due to loss of control | 47,921 | - | - | - |
| Additional investment in associates | 325,010 | 115,608 | 3,968 | 56,668 |
| Carrying amount at the end of the year | 993,583 | 501,142 | 317,277 | 313,309 |

Investment in associates at 31 December 2011 includes goodwill of P901,000 (2010:P901,000). There was no impairment loss during the year.

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

**Acquisition of additional interest in Letshego Holdings Limited**

During the 2011 financial year, the Group acquired additional voting shares of Letshego Holdings Limited, increasing its ownership to 25.51% (2010: 16.5%). The fair value of the listed associates ( Letshego Holdings Limited and Funeral Services Group) was P826 million (2010:P623 million)

| | Khumo Property Asset Mngmt | Gaborone Sun | Funeral Services Group | Plot 21 Investments | Bongwe | African Life Financial Services (Zambia) Limited | Re mmogo | Letshego | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | | | | | |
| Carrying amount (P'000) | 1,800 | 14,958 | 30,565 | 2,097 | 5,847 | 47,919 | - | 890,397 | 993,583 |
| Interest in issued share capital Shareholders' fund | 50% | 20% | 28.65% | 33% | 33% | 49% | 33% | 25.51% | - |
| Share of earnings after tax for current year (P'000) | (209) | 1,201 | 5,505 | 501 | 404 | - | - | 126,470 | 133,872 |
| Distributions received | | | - | | | | | | |
| Shareholders' fund (P'000) | - | (9,663) | (1,169) | - | - | - | - | - | (10,832) |
| **Total assets and liabilities of associated company** | | | | | | | | | |
| Non-current assets (P'000) | 1,140 | 22,362 | 121,789 | 47,341 | 285,569 | - | - | 62,224 | 540,425 |
| Current assets (P'000) | 2,522 | 8,646 | 34,967 | 11,560 | 41,006 | 14,268 | - | 3,138,263 | 3,251,232 |
| Non-current liabilities (P'000) | (16) | - | (9,338) | (49,825) | (301,320) | (2,016) | - | - | (362,515) |
| Current liabilities (P'000) | (2,063) | (126) | (16,084) | (1,159) | (1,983) | (1,457) | - | (737,516) | (760,388) |
| Total Revenue of associate company (P'000) | 955 | 886 | 45,009 | 4,682 | 7,216 | (3,397) | - | 869,809 | 925,160 |
| Earnings attributable to shareholders (P'000) | 2,842 | 780 | 13,035 | 1,184 | 1,536 | 922 | - | 531,184 | 551,483 |
| **As at 31 December 2010** | | | | | | | | | |
| Carrying amount (P'000) | 943 | 23,608 | 26,229 | 3,536 | 7,911 | - | - | 438,915 | 501,142 |
| Interest in issued share capital Shareholders' fund | 50% | 20% | 28.65% | 33% | 33% | - | 33% | 16.50% | - |
| Share of earnings after tax for current year (P'000) | 257 | - | 2,980 | 416 | 1,067 | - | - | 67,497 | 72,217 |
| Distributions received | - | - | - | - | - | - | - | - | - |
| Shareholders' fund (P'000) | - | - | (1,405) | - | - | - | - | (6,332) | (7,737) |
| **Total assets and liabilities of associated company** | | | | | | | | | |
| Non-current assets (P'000) | 344 | 22,504 | 110,982 | 62,990 | 166,701 | - | - | 55,654 | 419,175 |
| Current assets (P'000) | 5,500 | 9,926 | 24,248 | 2,337 | 29,906 | - | - | 2,314,813 | 2,386,730 |
| Non-current liabilities (P'000) | (35) | - | (5,503) | (58,236) | (174,196) | - | - | | (237,970) |
| Current liabilities (P'000) | (1,414) | (81) | (19,673) | (1,745) | (835) | - | - | (635,163) | (658,911) |
| Total Revenue of associate company (P'000) | 10,264 | 6,523 | 36,655 | 2,196 | 7,742 | - | - | 773,371 | 836,751 |
| Earnings attributable to shareholders (P'000) | 2,842 | 1,551 | 10,403 | 1,235 | 1,897 | - | - | 420,618 | 438,546 |

## 4 Investments (continued)

**4.6 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 a 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 Assets Zambia Limited) | (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 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Outstanding premiums | 92,542 | 60,130 | - | - |
| Non-insurance contract amounts receivable | 76,799 | 96,020 | 668 | 84 |
| Due from reinsurers | 22,358 | 20,744 | - | - |
| - opening balance | 20,744 | 18,418 | - | - |
| - reinsurance recoveries received | (4,300) | (12,355) | - | - |
| - claim recoveries | 5,914 | 14,681 | - | - |
| | 191,699 | 176,894 | 668 | 84 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| The aging analysis of these receivables is as analysed below: | | | | |
| Neither past due nor impaired | 99,157 | 116,764 | 668 | 84 |
| Past due but not impaired: | 92,542 | 60,130 | - | - |
| Less than 30 days | 34,389 | 17,943 | - | - |
| 30 - 60 days | 26,345 | 14,753 | - | - |
| 60 - 90 days | 31,808 | 27,434 | - | - |
| | 191,699 | 176,894 | 668 | 84 |

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

**Impairment movement**

As at 31 December 2011 outstanding premiums with a nominal value of P7,078,206 (2010:P 69,260) were impaired and fully provided for. Movements in the provision for impairment of outstanding premiums were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| At 1 January | 3,382 | 3,451 | - | - |
| Charge /(Utilised) for the year | 7,078 | (69) | - | - |
| At 31 December | 10,460 | 3,382 | - | - |

## 6 Stated Capital

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| 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

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| ***Foreign currency translation reserve*** | | | | |
| Opening balance | 4,009 | 16,365 | - | - |
| Movement for the year | 30,651 | (12,356) | - | - |
| Balance at end of year | 34,660 | 4,009 | - | - |
| ***Consolidation reserve*** | | | | |
| Opening balance | (107,017) | (100,324) | - | - |
| Transfer from retained earnings | 10,649 | (6,197) | - | - |
| Cost of shares acquired | - | (496) | - | |
| Balance at end of year | (96,368) | (107,017) | - | - |
| Number of shares held at 31 December: | 9,874 | 9,955 | - | - |
| | 9,874 | 9,955 | - | - |
| Market price per share (Pula) | 9.76 | 10.75 | - | - |
| ***Treasury shares*** | | | | |
| Number of shares held at 31 December: | | | | |
| Shareholders' fund 000s | 886 | 1,312 | - | - |
| Opening balance | (128,015) | (153,005) | - | - |
| Cost of treasury shares acquired/(disposed of) | - | (65) | - | - |
| Exercised employee shares | 15,667 | 25,055 | - | - |
| | (112,348) | (128,015) | - | - |
| ***Share based payment reserve*** | | | | |
| Opening balance | 57,125 | 48,020 | 2,340 | - |
| Transfer from surplus for the year | 11,308 | 9,105 | 843 | 2,340 |
| | 68,433 | 57,125 | 3,183 | 2,340 |
| ***Statutory capital reserve*** | | | | |
| Opening balance | 494,168 | 424,840 | 9,762 | 9,762 |
| Transfer from surplus for the year | 79,392 | 69,328 | - | - |
| | 573,560 | 494,168 | 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 | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| ***Solvency reserve*** | | | | |
| Transfer from surplus for the year | 954 | - | - | - |
| Total non-distributable reserves | 468,891 | 320,270 | 12,945 | 12,102 |

## 8 Policyholder Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **8.1 Analysis of movement in policy liabilities under insurance contracts** | | | | |
| **Income** | 2,140,424 | 1,711,693 | - | - |
| Premium income | 1,743,827 | 1,620,513 | - | - |
| Investment return after tax | 396,597 | 91,180 | - | - |
| **Outflow** | (1,523,941) | (1,387,577) | - | - |
| Policy benefits | (907,459) | (302,881) | - | - |
| Retirement funds terminations | - | - | - | - |
| Fees, risk premiums and other payments to shareholders' fund | (616,482) | (1,084,696) | - | - |
| **Net movement for the year** | 616,483 | 324,116 | - | - |
| Balance at beginning of the year | 3,957,129 | 3,633,013 | - | - |
| Balance at end of the year | 4,573,612 | 3,957,129 | - | - |

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **8.2 Analysis of premium income** | | | | |
| Individual business | 1,362,766 | 1,146,405 | - | - |
| Recurring | 773,314 | 669,930 | - | - |
| Single | 589,452 | 476,475 | - | - |
| Employee benefits business | 381,060 | 474,108 | - | - |
| Recurring | 94,053 | 99,678 | - | - |
| Single | 287,007 | 374,430 | - | - |
| Non life insurance | 23,220 | - | | |
| Total premium income | 1,767,046 | 1,620,513 | - | - |

## 8 Policyholder Liabilities (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **8.3 Composition of policy liabilities** | | | | |
| **Individual business** | 10,334,144 | 10,263,403 | - | - |
| Linked and market-related liabilities | 7,540,178 | 7,775,422 | - | - |
| Stable bonus fund | 50,921 | 53,480 | - | - |
| Reversionary bonus policies | 47,968 | 77,003 | - | - |
| Non-participating annuities | 2,634,100 | 2,091,934 | - | - |
| Other non-participating liabilities | 60,977 | 265,564 | - | - |
| **Employee benefits business** | 252,901 | 47,999 | - | |
| Other non-participating liabilities | 252,901 | 47,999 | - | - |
| Total policy liabilities | 10,587,045 | 10,311,402 | - | - |

**8.4 Maturity analysis of policy holder liabilities**

**P'000**

| **2011** | **On demand** | **< 1 year** | **1-5 years** | **>5 years** | **open ended** | **Total** |
|---|---|---|---|---|---|---|
| Linked and market-related liabilities | 6,013,433 | 68,452 | 510,957 | 934,868 | - | 7,527,710 |
| 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 investment policies | 6,013,433 | 82,475 | 829,554 | 1,039,196 | 2,622,387 | 10,587,045 |
| **2010** | | | | | | |
| Linked and market-related liabilities | 6,354,273 | 83,794 | 324,998 | 1,001,168 | 11,189 | 7,775,422 |
| Stable bonus | - | 849 | 24,934 | 27,697 | - | 53,480 |
| Reversionary bonus policies | - | 367 | 10,789 | 11,984 | 53,863 | 77,003 |
| Non-participating annuities | - | 1,613 | 35,833 | 71,281 | 1,983,207 | 2,091,934 |
| Participating annuities | - | 37 | 822 | 1,636 | 45,504 | 47,999 |
| Other non-participating liabilities | - | 265,170 | 394 | - | - | 265,564 |
| Total investment policies | 6,354,273 | 351,830 | 397,770 | 1,113,766 | 2,093,763 | 10,311,402 |

| **8.5 Policy liabilities include the following:** | | |
|---|---|---|
| HIV/Aids reserve | 31,116 | 54,750 |
| Other pandemics | | |
| Increase / (Reduction) in earnings caused by using a retrospective HIV/Aids valuation basis instead of a prospective valuation basis | | |
| Asset mismatch reserve | 31,000 | 16,560 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **8.6 Reconcilation of policyholder liabilities** | | | | |
| ***Insurance contracts*** | | | | |
| Opening balance | 3,957,129 | 3,633,013 | - | - |
| Transfer from income statement | 616,483 | 324,116 | - | - |
| Other transfers | - | - | - | - |
| Closing balance | 4,573,612 | 3,957,129 | - | - |
| Financial Soundness Valuation (FSV) | 4,293,054 | 3,842,380 | - | - |
| Unearned premium reserve (UPR) | 241,782 | 89,654 | - | - |
| Annuity mismatch and re-investment reserve | 31,000 | 16,560 | - | - |
| Claims incurred but not yet reported (IBNR) reserve | 7,776 | 8,535 | - | - |
| ***Investment contracts*** | | | | |
| Balance at the beginning of the year | 6,354,273 | 6,129,217 | - | - |
| Pension and investment contributions | 285,806 | 273,221 | - | - |
| Net investment return | 96,782 | 271,125 | - | - |
| Benefits paid and withdrawals | (723,428) | (319,290) | - | - |
| Balance at end of the year | 6,013,433 | 6,354,273 | - | - |
| Total policyholder liabilities | 10,587,045 | 10,311,402 | - | - |
| Off balance sheet segregated funds | 5,002,008 | 4,894,159 | - | - |

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

| | | | | |
|---|---|---|---|---|
| **8.7 Reinsurance Assets** | | | | |
| Balance at the beginning of the year | 28,409 | 41,688 | - | - |
| Movement in reinsurer's share of insurance contract liabilities | (10,942) | (13,279) | - | - |
| Balance at end of the year | 17,467 | 28,409 | - | - |
| **8.8 Movement in insurance contract liability** | | | | |
| Policyholder transfer from income statement | 616,482 | 324,117 | - | - |
| Long term reinsurance asset movement | 10,942 | 13,279 | - | - |
| Movement in the income statement | 627,424 | 337,396 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

## 9 Non -controlling interests

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Balance at beginning of the year | 31,588 | 35,042 | - | - |
| Share of profit | 8,357 | 9,933 | - | - |
| Dividend payment | (3,588) | (8,660) | - | - |
| Currency translation difference | (2) | (4,727) | - | - |
| Diposal of minority | (305) | - | - | - |
| Balance at end of the year | 36,050 | 31,588 | - | - |

## 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 2011 P'000 | Deferred tax liability 2011 P'000 | Income statement 2011 P'000 | Deferred tax asset 2010 P'000 | Deferred liability 2010 P'000 | Income statement 2010 P'000 |
|---|---|---|---|---|---|---|
| Balance at the beginning of the year | 1,688 | (19,050) | - | 960 | (21,090) | - |
| Charge to the income statement | (1,494) | (3,722) | (5,216) | 728 | 2,040 | 2,768 |
| Balance sheet reclassification | - | 10,046 | - | - | - | - |
| Balance at end of the year | 194 | (12,726) | - | 1,688 | (19,050) | - |
| Representing: | | | | | | |
| Accelerated depreciation for tax purposes | 1,338 | 1,887 | 2,368 | 698 | (1,367) | 725 |
| Unrealised gains on shareholders' investments | (1,144) | 20,684 | 2,848 | 990 | (17,683) | 2,043 |
| Balance sheet reclassification | - | (10,046) | - | - | - | - |

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 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Trade payables** | | | | |
| Insurance claims payable | 143,164 | 147,478 | - | - |
| Premiums received in advance | 74,253 | 68,617 | - | - |
| Intermediary retention balance | 46,460 | 38,538 | - | - |
| Reassurance payable | 3,375 | 11,039 | - | - |
| **Other payables** | | | | |
| Other accounts payable | 116,822 | 133,521 | 21,046 | 23,320 |
| | 384,074 | 399,193 | 21,046 | 23,320 |

Terms and conditions of the above financial liabilities are:

Trade payables are non-interest bearing insurance related liability and their terms and conditions are as follows:

- Insurance claims and Premiums received in advance are settled within 30 days
- Reassurance payable are settled within 90 days
- Intermediary retention balances are amounts held on behalf of brokers and agents and are released on the aniversary of the policy.

Other payables are non-interest bearing and relate to administration liabilyties and have an average term of 90 days.

## 12 Premium Revenue

| | | | | |
|---|---|---|---|---|
| ***Individual life*** | 1,362,766 | 1,146,402 | - | - |
| Gross premium | 1,367,006 | 1,150,386 | - | - |
| - Recurring premium | 777,554 | 673,911 | - | - |
| - Single | 589,452 | 476,475 | - | - |
| Premium ceded to reinsurers | (4,240) | (3,984) | - | - |
| ***Group and employee benefits*** | 381,060 | 474,111 | - | - |
| Gross premium | 391,827 | 494,235 | - | - |
| - Recurring premium | 94,053 | 99,678 | - | - |
| - Single | 297,774 | 394,557 | - | - |
| Premium ceded to reinsurers | (10,767) | (20,124) | - | - |
| Non life insurance | 23,220 | - | - | - |
| | 1,767,046 | 1,620,513 | - | - |

## 13.1 Investment income

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Shareholders' investment income** | | | | |
| ***shareholder*** | | | | |
| Interest income in financial assets at fair value through profit or loss | 23,711 | 62,418 | 370 | 400 |
| Rental income on investment properties | 2,998 | 2,556 | - | - |
| Other income | - | - | 1,475 | 41 |
| Dividends | 7,903 | 12,944 | 229,021 | 216,424 |
| Investment management fees | (4,045) | (4,661) | - | - |
| | 30,567 | 73,257 | 230,866 | 216,865 |
| **Policyholders' investment income** | | | | |
| ***(i) policyholder insurance contracts*** | | | | |
| Interest income in financial assets at fair value through profit or loss | 244,420 | 246,238 | - | - |
| Rental income on investment properties | 10,356 | 5,274 | - | - |
| Dividends | 27,349 | 24,588 | - | - |
| Investment management fees | (24,398) | (20,982) | - | - |
| | 257,727 | 255,118 | - | - |
| ***(ii) policyholder investment contracts*** | | | | |
| Interest income in financial assets at fair value through profit or loss | 177,523 | 47,478 | - | - |
| Rental income on investment properties | 71,086 | 24,559 | - | - |
| Dividends | 212,674 | 69,779 | - | - |
| | 461,283 | 141,816 | - | - |
| Total Policyholder's investment income | 719,010 | 396,934 | - | - |
| Total Investment income | 749,577 | 470,191 | | |

### 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**

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| ***(i) shareholder*** | | | | |
| Realised fair value losses on investments | (4,438) | (2,200) | - | - |
| Foreign exchange gains/(losses) | 23,514 | (16,059) | - | |
| Unrealised fair value gains on investments | 21,822 | 36,244 | - | - |
| Less: treasury share adjustment | 16,100 | - | - | - |
| | 56,998 | 17,985 | - | - |

### 13.2 Net (losses) gains from financial assets held at fair value through profit or loss (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Policyholders' net gain from financial assets held at fair value through profit or loss** | | | | |
| ***(i) insurance contracts*** | | | | |
| Realised fair value losses on investments | (76,011) | (124,398) | - | - |
| Foreign exchange gains/(losses) | 130,126 | (65,231) | - | - |
| | 54,115 | (189,629) | - | - |
| ***(ii) investment contracts*** | | | | |
| Unrealised fair value gains /(losses) on investments | 23,210 | (9,141) | - | - |
| | 23,210 | (9,141) | - | - |
| Total Policyholder net gains/(losses) from financial assets held at fair value through profit or loss | 77,325 | (198,770) | - | - |
| Total net gains/(losses) from financial assets held at fair value through profit or loss | 134,323 | (180,785) | - | - |

## 14 Net insurance claims and benefits

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| ***Individual life*** | | | | |
| Death and disability claims | 108,510 | 91,710 | - | - |
| Maturity claims | 92,124 | 108,579 | - | - |
| Policy surrenders | 197,779 | 120,308 | - | - |
| Annuities | 248,592 | 199,188 | - | - |
| Reinsurance share on death and disability claims | (2,785) | (2,972) | - | - |
| Total individual life | 644,220 | 516,813 | - | - |
| ***Group and employee benefits*** | | | | |
| Death and disability claims | 280,844 | 216,581 | - | - |
| Reinsurance share on death and disability claims | (17,605) | (20,870) | - | - |
| Total group and employee benefits | 263,239 | 195,711 | - | - |
| Total | 907,459 | 712,524 | - | - |

## 15 Administration expenses include:

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Auditors' remuneration | | | | |
| - audit fee current period | 5,978 | 3,307 | 828 | 397 |
| - other services | 605 | 1,328 | 302 | - |
| Depreciation on property, plant and equipment (note 2) | 4,800 | 5,098 | - | - |
| Amortisation of computer software (note 3) | 1,836 | 1,113 | - | - |
| Directors' fees | | | | |
| - for services as directors | 3,138 | 2,739 | 1,294 | 2,739 |
| - for managerial services | 3,065 | 6,057 | 3,065 | - |
| - pension contribution | 741 | 443 | 741 | 309 |
| Operating lease rentals | 14,339 | 10,516 | - | - |
| ***Staff costs*** | | | | |
| Salaries and wages for administration staff | 110,329 | 103,656 | 6,236 | 4,364 |
| Pension costs | 8,086 | 8,234 | 1,664 | 1,846 |
| Medical aid | 1,973 | 1,827 | - | - |
| Share based payment | 11,308 | 9,105 | 843 | 2,340 |
| - for managers | 4,904 | 2,340 | 843 | 2,340 |
| - for staff | 6,404 | 6,765 | - | - |
| Total staff costs | 131,696 | 122,822 | 8,743 | 8,550 |
| Average number of employees | 360 | 392 | 6 | 9 |

## 16 Taxation

| | | | | |
|---|---|---|---|---|
| Current tax | (73,408) | (87,235) | - | - |
| Deferred tax | (5,371) | 2,768 | - | - |
| Withholding tax on dividends | 22,556 | 15,011 | (34,353) | (32,464) |
| Capital gains tax | (860) | - | - | - |
| Tax charge | (57,083) | (69,456) | (34,353) | (32,464) |

### 16.1 Tax reconciliation

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

| | | | | |
|---|---|---|---|---|
| Profit before tax | 528,413 | 401,939 | 208,952 | 189,445 |
| Tax calculated at a tax rate of 22% (2010:25%) | 116,253 | 100,487 | 45,969 | 47,361 |
| Effect of changing tax rates | (2,083) | - | - | - |
| Expenses not deductible for tax | 6,272 | 4,243 | - | - |
| Different tax on offshore dividends | 294 | 125 | - | - |
| Income not subject to tax | (41,957) | (20,388) | (45,969) | (47,361) |
| Withholding tax on dividends | (22,556) | (15,011) | 34,353 | 32,464 |
| Capital gains tax | 860 | - | - | - |
| Tax charge | 57,083 | 69,456 | 34,353 | 32,464 |

**Additional company tax**

The Group had additional Company Tax (ACT) available for set off against withholding tax on dividends as at 30 June 2011 of P46 million (31 December 2010: P46 million). The utilsation of ACT has since fallen away as per the ammended tax legislation.

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **16.2 Tax Paid** | | | | |
| Opening balances | 28,563 | 15,517 | - | - |
| Charge for the year | 51,711 | 72,225 | 34,353 | 32,464 |
| Closing balance | (11,024) | (28,563) | - | - |
| Tax paid | 69,250 | 59,179 | 34,353 | 32,464 |

## 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.

| | Dec 2011 P'000 | Dec 2010 P'000 |
|---|---|---|
| Net profit attributable to ordinary equity holders of the parent for basic earnings and diluted earnings | 462,973 | 322,550 |
| Number of shares in issue | 281,071 | 281,071 |
| Staff share scheme and treasury shares | (15,259) | (17,092) |
| Weighted average number of shares used for calculating basic earnings per share | 265,812 | 263,979 |
| Weighted number of dilutive options | 1,396 | 4,712 |
| Weighted average number of shares used for calculating diluted earnings per share | 267,208 | 268,691 |
| Earnings per share (thebe) | | |
| - basic | 174 | 122 |
| - diluted | 173 | 120 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 18 Dividends per Share Paid During the Period (Net)

| Declared and paid during the year: | Record date | P'000 |
|---|---|---|
| Final dividend for the year to 31 December 2010:41 thebe (2009: 35 thebe) | 8-Apr-2011 | 115,239 |
| Interim dividend for six months to 30 June 2011: 25 thebe (2010: 25 thebe) | 7-Oct-2011 | 70,268 |
| | | 185,507 |
| Dividend proposed after year end not recognised in the financial statements: | | |
| Final dividend for the year to 31 December 2011:41 thebe (2010: 41 thebe) | 27-Apr-2012 | 115,239 |
| Dividend proposed for approval at AGM (Before withholding tax - not recognised as liability at 31 December ) | | 115,239 |
| Withholding tax on dividends | | (17,286) |
| Dividend proposed for approval at AGM (After withholding tax - not recognised as liability at 31 December ) | | 97,953 |

## 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 2011 | Dec 2010 | 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 | - | Unit Trusts |
| Genebase Holdings (Pty) Ltd | Botswana | 100 | - | Loans |
| Regetta Investments (Pty) Ltd | Botswana | 100 | - | Dormant |
| BIHL Legal Guard (Pty) Ltd | Botswana | 100 | - | Dormant |
| BIHL Insurance Company Limited | Botswana | 100 | - | Short term insurance |
| BIHL Trust | Botswana | N/A | N/A | Corporate Social Responsibility |
| BIHL Employee Share Scheme Trust | Botswana | N/A | N/A | Employee Share Trust |
| ***Indirectly held*** | | | | |
| Bifm | 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 | 51 | Corporate finance |
| Bifm Capital 1 | Botswana | 100 | 100 | Corporate finance |
| Bifm Capital 2 | Botswana | 100 | 100 | Corporate finance |
| Quantum Assets Zambia Limited | Zambia | 100 | 100 | Asset management |
| Bifm Projects (Pty) Limited | Botswana | 100 | 100 | Building projects |
| KYS Investments (Pty) Limited | Botswana | 63 | 63 | Holding company |
| Photon Private Equity Fund Managers (Pty) Limited: | Botswana | 100 | 100 | Private equity |

| | | Group Dec 2011 P'000 | Group Dec 2010 P'000 | Company Dec 2011 P'000 | Company Dec 2010 P'000 |
|---|---|---|---|---|---|
| ***(i)Transactions on insurance contracts*** | | | | | |
| Sanlam Limited (54% shareholder of BIHL) | | | | | |
| - Premium ceded to reinsurer | | 4,048 | 5,397 | - | - |
| - Claim recoveries from reinsurer | | (2,786) | (2,972) | - | - |
| -Letshego Holdings Limited | Credit life income | (199,071) | (79,124) | - | - |
| (Associate company of a BIHL) | Claims paid | 189,718 | 26,198 | - | - |
| ***(ii) Other transactions*** | | | | | |
| -Funeral service | Share of income | (807) | (696) | - | - |
| (Associate company of BIHL) | | | | | |
| Dividends received | - BLIL | - | - | 149,278 | 117,708 |
| | - Bifm | - | - | 67,187 | 96,273 |
| | - BLI Investments | - | - | 8,466 | 2,444 |
| | - BIHL Insurance Company Limited | - | - | 4,090 | - |
| ***Year end balances arising from transactions on insurance contracts*** | | | | | |
| Net due from | | | | | |
| - Sanlam Limited | | - | - | - | - |

***Year end balances arising from transactions on other services other than insurance contracts***

| Amount receivable/(payable) | P'000 | P'000 | P'000 | P'000 |
|---|---|---|---|---|
| - BLIL(100% owned by BIHL) | - | - | (77,146) | (85,389) |
| - Bifm(100% owned by BIHL) | - | - | 5,031 | 4,612 |
| - Genebase Holdings (Pty) Ltd (100% owned by BIHL) | - | - | 192 | - |
| - Employee share scheme | - | - | 3 | - |
| - BIHL Insurance Company Limited (100% owned by BIHL) | - | - | 2,233 | - |
| - Sanlam Sky (Subsidiary of Sanlam Limited) | (6,691) | (3,960) | - | - |
| | (6,691) | (3,960) | (69,687) | (80,777) |

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

***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 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: 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.

## 19 Related Party Transactions (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| **Transactions with key management** | | | | |
| ***(i) Compensation*** | | | | |
| - Short-term employee benefits | 32,930 | 24,242 | 10,572 | 5,276 |
| - Pension costs - defined contribution plans | 811 | 792 | 88 | - |
| - Share based payments | 2,712 | 9,741 | 843 | 1,970 |
| - Other long-term benefits | 2,639 | 1,532 | 1,789 | 526 |
| | 39,092 | 36,307 | 13,292 | 7,772 |
| ***(ii) Holding in Company's policies*** | 1,014 | 1,014 | - | - |

| | Opening balance | Purchases/ (Sales) | Closing balance |
|---|---|---|---|
| **Directors' shareholding** | | | |
| B Dambe-Groth | 22,943 | - | 22,943 |
| M Mpugwa | 6,582 | 2,065 | 8,647 |
| U Corea | 15,000 | - | 15,000 |
| C Chauhan | 75,020 | - | 75,020 |
| Total | 119,545 | 2,065 | 121,610 |

**Executive directors emoluments**

The remuneration of executive directors comprises salaries and other short-term incentives as well as participation in long term incentive plans.

***(i) Short-term emoluments***

| Name | Months of service | Salary P'000 | Bonus P'000 | Company contributions P'000 | Total P'000 |
|---|---|---|---|---|---|
| RD Sikalesele-Vaka | 3 | 475 | 1,779 | 741 | 2,995 |
| G Hassam | 1 | 150 | - | - | 150 |
| Total executive directors | | 625 | 1,779 | 741 | 3,145 |

***(ii) Long-term emoluments***

**Share purchase plans**

| Name | No. of options | Strike price (Pula) | Exercised | Forfeited | Outstanding | Expiry date |
|---|---|---|---|---|---|---|
| RD Sikalesele-Vaka | | | | | | |
| 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 21b for additional information on the scheme.

## 20 Commitments

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Operating lease commitments | | | | |
| The future minimum lease payments under non-cancellable operating leases | | | | |
| Within one year | 8,577 | 3,071 | - | - |
| Within two to five years | 20,724 | 10,663 | - | - |

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 P8.0 million (2010: P8.3 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 two additional 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 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 2011 is P20.6 million (31 December 2010: P18.4 million). The expense recognised in the income statement is P2.3 million (2010: P2.1 million).

## 21 Employee Benefits (continued)

| | Dec 2011 | | Dec 2010 | |
|---|---|---|---|---|
| | Number of share options '000 | Weighted average exercise price Pula | Number of share options '000 | Weighted average exercise price Pula |
| Outstanding at the beginning | 4,720 | 16.86 | 7,028 | 14.00 |
| Granted | - | - | - | - |
| Forfeited | - | - | (850) | 16.90 |
| Exercised | (2,162) | 3.05 | (1,458) | 3.05 |
| Outstanding at the end of year | 2,558 | 10.00 | 4,720 | 16.86 |
| Exercisable at 31 December | 842 | 5.57 | 167 | 5.57 |

| Price | Number of options outstanding |
|---|---|
| 8.50 | 166,667 |
| 8.70 | 366,667 |
| 16.90 | 2,025,000 |
| | 2,558,334 |

The weighted average remaining contractual life for the shares outstanding as at 31 December 2011 is 8 years (2010: 8 years)
The weighted average fair value of options granted during the year was NIL as there were no grants during the year. (2010: PNIL).
The range of exercise prices for options outstanding at the end of the year was P8.50 - P16.90 (2010: P3.60-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 (2010: P35.6 million). The expense recognised in the income statement was P6.4 million (2010: P4.0 million).

| | Dec 2011 | | Dec 2010 | |
|---|---|---|---|---|
| | Number of share options '000 | Weighted average exercise price Pula | Number of share options '000 | Weighted average exercise price Pula |
| Outstanding at the beginning | 4,089 | 5.29 | 4,386 | 3.94 |
| Granted | - | - | 678 | 11.00 |
| Forfeited | - | - | - | - |
| Exercised | (1,225) | 8.70 | (975) | 3.60 |
| Outstanding at the end of year | 2,864 | 7.00 | 4,089 | 5.29 |

The weighted average remaining contractual life for the shares outstanding as at 31 December 2011 is 8 years (2010: 8 years)
The weighted average fair value of options granted during the year was NIL as there were no grants during the year. (2010: P11.00).
The exercise prices for options outstanding at the end of the year was P11.00 (2010: 8.70-P16.75).

***(iii) The Share Option Scheme (SOS)***

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

The share options vests after a period of three years of continiuos service from the grant date. The employer companies will, however, remain responsible to fund the procurement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The shares are issued at the ruling market price on the date of the grant. The subsidiaries account for the awards as cash settled while the Holding Company accounts 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 2011 is P1.4 (31 December 2010: P485,802). The expense recognised in the income statement is P 944,301 (2010: 485,802).

| | Dec 2011 | | Dec 2010 | |
|---|---|---|---|---|
| | Number of share options '000 | Weighted average exercise price Pula | Number of share options '000 | Weighted average exercise price Pula |
| Outstanding at the beginning | 901 | 10.25 | - | - |
| Granted | 812 | 11.25 | 901 | 10.25 |
| Forfeited | (151) | 10.25 | - | - |
| Exercised | - | - | - | - |
| Outstanding at the end of year | 1,562 | 10.77 | 901 | 10.25 |

The number of share options granted during the year was 811,586 (2010:P 900,707). The weighted average value of options granted during the year was P11.75(2010: P10.25)
The weighted average remaining contractual life for the shares outstanding as at 31 December 2011 is 10 years (2010: 10 years)
The range of exercise prices for options outstanding at the end of the year was P8.51 - P11.75.(2010:P8.51-P11.00)

***(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. The employer companies are responsible to fund the procurement of shares issued to its employees in terms of the scheme at the time the shares are so procured.The subsidiaries account for the awards as cash settled while the Holding Company and Group accounts for the awards as equity settled.

The amount carried in the share based reserve at 31 December 2011 is P4.2 million (31 December 2010: P2.6 million). The expense recognised in the income statement is P 1.6 million (2010: P2.6 million).

## 21 Employee Benefits (continued)

| | Dec 2011 | | Dec 2010 | |
|---|---|---|---|---|
| | Number of share options '000 | Weighted average exercise price Pula | Number of share options '000 | Weighted average exercise price Pula |
| Outstanding at the beginning of the year | 1,048 | 9.10 | - | - |
| Granted | 208 | 11.33 | 1,048 | 9.10 |
| Forfeited | (692) | 9.10 | - | - |
| Exercised | - | - | - | - |
| Outstanding at the end of the year | 564 | 9.92 | 1,048 | 9.10 |

The number of Conditional shares granted during the year was 207,948 (2010:1,047 669).

The weighted average fair value of shares granted during the year was P11.33 (2010:P 9.10)

The following assumptions have been used in the valuations model of the scheme:

| | Dec 2011 | Dec 2010 |
|---|---|---|
| Dividend yield | 8.26% | 6.98% |
| Volatility | 27.86% | 23.30% |
| Risk free interest rate | 8.47% | 8.10% |
| Spot price (thebe) | 11.75 | 11.00 |
| Weighted average share price (Pula) | 2.47 | 3.01 |
| % of remaining employees | 80.00% | 80.00% |

**Options pricing model**

Since the BIHL employee share options are not tradable, IFRS 2 requires that the fair value of these options be calculated using a suitable option-pricing model. In terms of best practice, we have adopted a modified binomial tree model for valuation purposes, which can be described, at a high-level, as follows:

i) The life of the option is divided into a large number of small time periods.

ii) A binomial tree is developed with time-dependent nodes corresponding to projected upward and downward movements of the BIHL share. This projection is calculated as a function of the volatility of the underlying share, and by assuming that the share price follows a stochastic process.

iii) Starting from the maturity date of the option, the model works backward through the tree, and at each node determines two possible values for the option: (a) the value of the option if one were to continue to hold it at that point in time, and (b) the value of the option if one were to exercise it at that node. Value (a) above is calculated using arbitrage-free principles and risk-neutral valuation theory, while value (b) is calculated simply as the difference between the projected spot price of the underlying share at that node and the strike price of the option.

iv) For time periods subsequent to the vesting date of each option, the model uses the greater of the two values referred to above to estimate the option's value at that node. For time periods prior to the vesting date, only value (1) is used to estimate the option's value, reflecting the fact that the option cannot be exercised prior to vesting date.

v) Once the value at a particular node has been determined, that value is discounted to the prior period using the risk-free yield curve, and taking into account the probability of realising that value. Eventually, the value at the first node (i.e. corresponding with valuation date) is calculated. This represents the fair value of the option.

**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 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Profit before tax as per income statement | 528,413 | 401,939 | 208,952 | 189,445 |
| Non cash flow items | (280,795) | (84,772) | 1,724 | 2,340 |
| Profit on sale of subsidiary | (33,785) | - | - | - |
| (Profit)/Loss on sale of property and equipment | (1,336) | - | 881 | - |
| Depreciation | 4,800 | 5,098 | - | - |
| Amortisation | 1,836 | 1,113 | - | - |
| Unrealised fair value gains on shareholder assets | (48,863) | (17,985) | - | - |
| Unrealised fair value gains on investment properties | (80,883) | (9,886) | - | - |
| Equity-accounted earnings | (133,872) | (72,217) | - | - |
| Share - based payments | 11,308 | 9,105 | 843 | 2,340 |
| Items disclosed separately | (665,137) | (56,620) | (229,391) | (216,824) |
| Interest received | (425,096) | (45,502) | (370) | (400) |
| Dividends received | (240,041) | (11,118) | (229,021) | (216,424) |

## 22 Cash Generated from Operations (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | Dec 2011 P'000 | Dec 2010 P'000 | Dec 2011 P'000 | Dec 2010 P'000 |
| Working capital changes: | 259,392 | 677,109 | (13,948) | 197,897 |
| Net increase in trade and other receivables | (14,807) | (1,085) | (3,431) | 102,433 |
| Change in policyholder liabilities | 275,645 | 549,172 | - | - |
| Decrease in reinsurance assets | 10,942 | 13,279 | - | - |
| Net (decrease)/increase in trade and other payables | (12,388) | 115,743 | (10,517) | 95,464 |
| Cash (utilised in)/generated from operations | (158,127) | 937,656 | (32,663) | 172,858 |

## 23 Cash and Bank

| | | | | |
|---|---|---|---|---|
| | 104,772 | 113,990 | 12,323 | 17,997 |
| Funds on deposit | 1,143,828 | 1,262,238 | - | - |
| Cash and cash equivalents | 1,248,600 | 1,376,228 | 12,323 | 17,997 |

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% (2010: 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:<br>***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.<br>***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.<br>***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:<br>***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:<br>***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.<br>***Lapse risk:*** the risk of financial loss due to negative lapse experience.<br>***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.<br>***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. Market risk arises from the uncertain movement in the fair value of financial instruments that stems principally from potential changes in sentiment towards the instrument, the variability of future earnings that is reflected in the current perceived value of the instrument and the fluctuations in interest rates and foreign currency exchange rates.

The shareholders' fund investments in equities and interest-bearing instruments are valued at fair value and are therefore susceptible to market fluctuations.

Comprehensive measures and limits are in place to control the exposure to market risk. Continuous monitoring takes place to ensure that appropriate assets are held in support of the life operations' long-term solvency capital and the business' investment return targets. Limits are applied in respect of the exposure to asset classes and individual counters.

**Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is the Group's objective to minimise interest rate risk to a minimum.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

## 24 Risk Management (continued)

**Interest rate risk (continued)**

The Group's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is re-priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until the maturity.

The Investment committee set the limits in the investment mandates, and meet quarterly to review compliance with the agreed mandates, and where necessary 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.

**31-Dec-2011**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| 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) |

**31-Dec-2010**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| BWP | 0.5% | 526,306 | 2,632 | 1,974 |
| BWP | -0.5% | 526,306 | (2,632) | (1,974 ) |
| USD | 0.5% | 101,513 | 508 | 381 |
| USD | -0.5% | 101,513 | (508) | (381) |

**Fair value sensitivities**

**31-Dec-2011**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| BWP | 0.5% | 550,842 | 2,754 | 2,066 |
| BWP | -0.5% | 550,842 | (2,754) | (2,066) |

**31-Dec-2010**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| BWP | 0.5% | 546,168 | 2,731 | 2,048 |
| BWP | -0.5% | 546,168 | (2,731) | ( 2,048) |

**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.

**31-Dec-2011**

| | United States Dollar P000 | Other currencies P000 | Total P000 |
|---|---|---|---|
| Equity instruments | 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 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

## 24 Risk Management (continued)

**31-Dec-2010**

| | United States Dollar P000 | Other currencies P000 | Total P000 |
|---|---|---|---|
| Equity investments | 4,903,716 | - | 4,903,716 |
| Money market instruments | 173,364 | - | 173,364 |
| Bonds | 218,500 | - | 218,500 |
| Foreign currency exposure | 5,295,580 | - | 5,295,580 |
| Average rate | 7.30 | - | - |
| Closing rate | 6.62 | - | - |

**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).

**31-Dec-2011**

| | Change in variables | Value (P000) | Increase / (decrease) in profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| USD | 5% | 10,799,706 | 539,985 | 404,989 |
| USD | -5% | 10,799,706 | (539,985) | (404,989) |

**31-Dec-2010**

| | Change in variables | Value (P000) | Increase / (decrease) in profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| USD | 5% | 5,295,580 | 264,779 | 198,584 |
| USD | -5% | 5,295,580 | (264,779) | (198,584) |

**Price risk**

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) in equities and debt securities, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit linked business.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market.

**Price sensitivity analysis**

The following table shows the effect of price changes on domestic market and foreign market equities. The sensitivity analysis uses the Domestic Company Index which is the principle stock index of the Botswana Stock exchange and the Morgan Stanley Capital Index which is a market capitalisation weighted benchmark index made up of equities from 23 countries including the United States. Indices are free-float weighted equity indices.

The disclosures are based on both shareholder and policyholder assets

**31-Dec-2011**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| DCI | 15% | 2,072 | 104 | 78 |
| DCI | -15% | 2,072 | (104) | (78) |
| MSCI | 10% | 4,068 | 203 | 153 |
| MSCI | -10% | 4,068 | (203) | (153) |

**31-Dec-2010**

| | Change in variables | Value (P000) | Increase / (decrease) on profit before tax (P000) | Increase / (decrease) on equity (P000) |
|---|---|---|---|---|
| DCI | 15% | 16,139 | 2,421 | 1,816 |
| DCI | -15% | 16,139 | (2,421) | (1,816) |
| MSCI | 10% | 32,266 | 3,227 | 2,420 |
| MSCI | -10% | 32,266 | (3,227) | (2,420) |

**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.

# NOTES TO THE FINANCIAL STATEMENTS

## 24 Risk Management (continued)

**Credit risk (continued)**

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.

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**

| | 2011 Total P'000 | 2010 Total P'000 |
|---|---|---|
| Long term Reinsurance assets | 17,467 | 28,409 |
| Bonds (Government, public authority, listed and unlisted corporates) | 4,499,728 | 3,361,182 |
| Money market instruments | 213,182 | 11,489 |
| Policy loans and other loan advances | 146,540 | 224,448 |
| Trade and other receivables | 191,699 | 176,894 |
| Related party balances | - | - |
| Cash, deposits and similar securities | 1,248,600 | 1,376,228 |
| Maximum credit risk exposure | 6,317,216 | 5,178,650 |

**Company**

| | 2011 Total P'000 | 2010 Total P'000 |
|---|---|---|
| Trade and other receivables | 668 | 84 |
| Related party balances | 7,459 | 4,612 |
| Cash, deposits and similar securities | 12,323 | 17,997 |
| Maximum credit risk exposure | 20,450 | 22,693 |

**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 instrument do not have offical credit ratings therefore majority of balances are not rated. Moody's Investors Service changed the outlook on Botswana's A2 Government bond ratings to stable from negative in November 2011, this was in response to the continuous improvement in the government's fiscal position as a result of a faster than expected implementation of its fiscal consolidation plan.

**31-Dec-2011**

| P'000 | Foreign currency Pula equivalent | Botswana Pula | A2 rated | Not rated | Total |
|---|---|---|---|---|---|
| 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 |
| Related party balances | - | - | - | - | - |
| Trade and other receivables | - | 191,699 | - | 191,699 | 191,699 |
| Cash and bank balances | - | 1,248,600 | - | 1,248,600 | 1,248,600 |
| | 96,742 | 6,203,007 | 927,519 | 5,372,230 | 6,299,749 |

## 24 Risk Management (continued)

**31-Dec-2010**

| P'000 | Foreing currency Pula equivalent | Botswana Pula | -A rated | Not rated | Total |
|---|---|---|---|---|---|
| Government bonds | - | 530,187 | 530,187 | - | 530,187 |
| Corporate bonds and other | - | 2,830,995 | - | 2,830,995 | 2,830,995 |
| Money Markets | - | 11,489 | - | 11,489 | 11,489 |
| Policy loans | - | 224,448 | - | 224,448 | 224,448 |
| Related party balances | - | - | - | - | - |
| Trade and other receivables | - | 176,894 | - | 176,894 | 176,894 |
| Cash and bank balances | - | 1,376,228 | - | 1,376,228 | 1,376,228 |
| | - | 5,150,241 | 530,187 | 4,620,054 | 5,150,241 |

None of the non rated assets are impaired as at 2011 and 2010 financial years.Corporates are reputable financial institutions and parastatals. Money market investments are with reputable local banks and reputable foreign fund managers. 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.

| | | 31-Dec-2011 | | 31-Dec-2010 |
|---|---|---|---|---|
| **Unlisted bonds** | **Collateral held P'000** | **Credit exposure P'000** | **Collateral held P'000** | **Credit exposure P'000** |
| Botswana Building Society | 10,000 | 12,157 | 10,000 | 11,934 |
| Botswana Building Society | 150,000 | 155,580 | 150,000 | 171,141 |
| Botswana Development Corporation | 15,000 | - | 15,000 | 15,725 |
| ABC Holdings, RDC Properties | 285,000 | 331,773 | 285,000 | 335,800 |
| Botho Park | 83,000 | 59,509 | 83,000 | 89,386 |
| CA Sales & Distribution | 60,000 | 72,061 | 60,000 | 71,332 |
| Botswana Savings Bank | 50,000 | 59,564 | 50,000 | 60,550 |
| Choppies Enterprises Limited | 35,000 | 42,233 | 35,000 | 40,423 |
| RDC Properties | 40,000 | 45,607 | 40,000 | 46,385 |
| Three Partners Resort | 60,000 | 61,340 | 60,000 | 20,000 |
| Stanbic Bank of Botswana | 300,000 | 366,731 | 300,000 | 389,097 |
| First National Bank of Botswana | 60,525 | 63,619 | - | - |
| | 1,148,525 | 1,270,174 | 1,088,000 | 1,251,773 |

**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. Assets maturities have been disclosed on the basis of contractual maturities. The disclosures are based on both shareholder and policyholder assets

**Maturity analysis of Financial assets and Financial Liabilities:**

**Group**

**31-Dec-2011**

| P'000 | < 1 year | 1-5 years | > 5 years | Open ended | Total |
|---|---|---|---|---|---|
| **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 (continued)

**31-Dec-2010**

| P'000 | < 1 year | 1-5 years | > 5 years | Open ended | Total |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Long term Reinsurance assets | 28,409 | - | - | - | 28,409 |
| Bonds (Government, public authority, listed & unlisted corporates) | 218,500 | 353,573 | 4,078,413 | - | 4,650,486 |
| Money market instruments | 11,489 | - | - | - | 11,489 |
| Equity investments | - | - | - | 6,097,371 | 6,097,371 |
| Policy loans and other loan advances | 224,448 | - | - | - | 224,448 |
| Related party balances | - | - | - | - | - |
| Trade and other receivables | 176,894 | - | - | - | 176,894 |
| Cash, deposits and similar securities | 1,376,228 | - | - | - | 1,376,228 |
| | 2,035,968 | 353,573 | 4,078,413 | 6,097,371 | 12,565,325 |
| **Financial Liabilities:** | | | | | |
| Policy holders liabilities | | | | | |
| -Insurance contracts | 351,830 | 397,770 | 1,113,766 | 2,093,763 | 3,957,129 |
| -Investment contracts | - | - | - | 6,354,273 | 6,354,273 |
| Related party balances | 3,960 | - | - | - | 3,960 |
| Trade and other payables | 399,193 | - | - | - | 399,193 |
| | 754,983 | 397,770 | 1,113,766 | 8,448,036 | 10,714,555 |

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**

**31-Dec-2011**

| P'000 | < 1 year | 1-5 years | > 5 years | Open ended | Total |
|---|---|---|---|---|---|
| **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 |

**31-Dec-2010**

| P'000 | < 1 year | 1-5 years | > 5 years | Open ended | Total |
|---|---|---|---|---|---|
| **Financial Assets:** | | | | | |
| Trade and other receivables | 84 | - | - | - | 84 |
| Related party balances | 4,612 | - | - | - | 4,612 |
| Cash, deposits and similar securities | 17,997 | - | - | - | 17,997 |
| | 22,693 | - | - | - | 22,693 |
| **Financial Liabilities:** | | | | | |
| Trade and other payables | 23,320 | - | - | - | 23,320 |
| Related party balances | 85,389 | - | - | - | 85,389 |
| | 108,709 | - | - | - | 108,709 |

**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)

## 24 Risk Management (continued)

The following table presents the company's assets and liabilities that are measured at fair value at 31 December 2011:

| | Level 1 P'000 | Level 2 P'000 | Level 3 P'000 | Total fair value P'000 |
|---|---|---|---|---|
| **31-Dec-2011** | | | | |
| **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 |
| **31-Dec-2010** | | | | |
| **Financial assets designated at fair value through profit or loss:** | | | | |
| Bonds (Government, public authority, listed & unlisted corporates) | 446,702 | 2,914,480 | - | 3,361,182 |
| Money market instruments | 11,489 | - | - | 11,489 |
| Equity investments | 6,086,169 | 11,202 | - | 6,097,371 |
| Policy loans and other loan advances | - | 224,448 | - | 224,448 |
| | 6,544,360 | 3,150,130 | - | 9,694,490 |
| **Financial Liabilities:** | | | | |
| Investment contract liabilities | - | 6,354,273 | - | 6,354,273 |
| | - | 6,354,273 | - | 6,354,273 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker or industry group, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the last trading price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (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.

**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 235.

| | 31-Dec-2011 | | 31-Dec-2010 | |
|---|---|---|---|---|
| Years | Assets P million | Policy liabilities P million | Assets P million | Policy liabilities P million |
| Non participating annuities and supporting assets | 2,629 | 2,629 | 2,905 | 2,905 |

## 24 Risk Management (continued)

**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.
(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**

| P'000 | Financial assets held at fair value through profit or loss | Loans and receivables | Financial liabilities held at fair value through profit or loss | Financial liabilities measured at amortised cost | Total |
|---|---|---|---|---|---|
| **31-Dec-2011** | | | | | |
| **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 |
| Cash, deposits and similar securities | - | 1,248,600 | - | - | 1,248,600 |
| Total financial assets | 9,756,100 | 1,440,299 | - | - | 11,196,399 |

NOTES TO THE FINANCIAL STATEMENTS

## 25 Categories of Financial Assets and Financial Liabilities (continued)

**Group**

| P'000 | Financial assets held at fair value through profit or loss | Loans and receivables | Financial liabilities held at fair value through profit or loss | Financial liabilities measured at amortised cost | Total |
|---|---|---|---|---|---|
| **31-Dec-2011** | | | | | |
| **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 balances | - | - | - | 6,691 | 6,691 |
| Trade and other payables | - | - | - | 384,074 | 384,074 |
| Total financial liabilities | - | - | 10,587,045 | 390,765 | 10,977,810 |
| **31-Dec-2010** | | | | | |
| **Financial assets** | | | | | |
| Bonds (Government, public authority, listed and unlisted corporates) | 3,361,182 | - | - | - | 3,361,182 |
| Money market instruments | 11,489 | - | - | - | 11,489 |
| Equity investments | 6,097,371 | - | - | - | 6,097,371 |
| Policy loans and other loan advances | 224,448 | - | - | - | 224,448 |
| Trade and other receivables | - | 176,894 | - | - | 176,894 |
| Related party balances | - | - | - | - | - |
| Cash, deposits and similar securities | - | 1,376,228 | - | - | 1,376,228 |
| Total financial assets | 9,694,490 | 1,553,122 | - | - | 11,247,612 |
| **Financial liabilities** | | | | | |
| Long term policyholder liability - insurance contracts | - | - | 3,957,129 | - | 3,957,129 |
| Long term policyholder liability -investment contracts | - | - | 6,354,273 | - | 6,354,273 |
| Related party payables | - | - | - | 3,960 | 3,960 |
| Trade and other payables | - | - | - | 399,193 | 399,193 |
| Total financial liabilities | - | - | 10,311,402 | 403,153 | 10,714,555 |

**Company**

| P'000 | Financial assets held at fair value through profit or loss | Loans and receivables | Financial liabilities held at fair value through profit or loss | Financial liabilities measured at amortised cost | Total |
|---|---|---|---|---|---|
| **31-Dec-2011** | | | | | |
| **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 |
| **31-Dec-2010** | | | | | |
| **Financial assets** | | | | | |
| Trade and other receivables | - | 84 | - | - | 84 |
| Related party balances | - | 4,612 | - | - | 4,612 |
| Cash, deposits and similar securities | - | 17,997 | - | - | 17,997 |
| Total financial assets | - | 22,693 | - | - | 22,693 |
| **Financial liabilities** | | | | | |
| Trade and other payables | - | - | - | 23,320 | 23,320 |
| Related party payables | - | - | - | 85,389 | 85,389 |
| Total financial liabilities | - | - | - | 108,709 | 108,709 |

Interest income on loan and recievables was P 9.1 million (2010: P 34.9 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.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-first annual general meeting of Botswana Insurance Holdings Limited will be held at Gaborone Sun Conference Centre, Gaborone, Botswana on 12 July 2012 at 16:00hrs for the following business:

## Ordinary Business

**1 To read the notice convening the meeting.**

**2 Ordinary Resolution 1:**
To receive, approve and adopt the audited financial statements for the year ended 31 December 2011 together with the reports of the statutory actuary and auditors.

**3 Ordinary Resolution 2:**
To approve the dividends declared by the directors on 18 August 2011 and 22 February 2012.

**4 Ordinary Resolution 3:**
To elect directors in accordance with the provisions of the Articles of Associations of the company. The following directors retire by rotation at this meeting and, being eligible, offer themselves for re-election

a) Mrs. B.P. Dambe-Groth
b) Mr. D. K. U. Corea
c) Mr. H.C. Werth
d) Mr J. P. Hinchliffe

**5 Ordinary Resolution 4:**
To confirm the appointment of the following directors who were appointed directors of the company by the Board during the course of the year.
a) Mr. M. Seboni
b) Mr. T. Schultz
c) Mr. G. Hassam

**6 Ordinary Resolution 5:**
To approve the remuneration of the chairman and non-executive directors for the year ended 31 December 2011.

**7 Ordinary Resolution 6:**
To approve the remuneration of the auditors for the year ended 31 December 2011.

**8 Ordinary Resolution 7:**
To appoint Ernst & Young as auditors for the ensuing year.

**9. Voting and Proxies**

1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. The proxy need not be a member of the Company.

2 The instrument appointing such a proxy must be deposited at the registered office of the company not less than 48 hours before the meeting.

3 The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

**By order of the Board**

**Rorisang Modikana**
Company Secretary

A shareholder/s is entitled to attend and vote at this Annual General Meeting is/are entitled to appoint one or more proxies (who need not to be shareholders of the company), to attend, speak and vote on behalf of the shareholder/s at the Annual General Meeting.



# PROXY FORM

To be completed by shareholders with "own name" registration
For use at the Annual General Meeting to be held on at 16:00hrs on, 12 July 2012 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 12 July 2012, 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 2011 | | | |
| 2 | Ordinary resolution number 2 - to approve the dividends declared by the directors on 18 August 2011 and 22 February 2012 | | | |
| 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<br>Mrs. B.P. Dambe-Groth<br>Mr. D. K. U. Corea<br>Mr. H.C. Werth<br>Mr J. P. Hinchliffe | | | |
| 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<br>Mr. M. Seboni<br>Mr T. Schultz<br>Mr. G. Hassam | | | |
| 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 2011 | | | |
| 7 | Ordinary resolution number 7 - to appoint auditors for the coming year to 31 December 2012 | | | |

Signed at____________on the ____________ day of 2012

Signature ____________

## Receiving and Adoption of the Annual Financial Statements together with the Reports of the Statutory Actuary and the Auditors

The directors have to present to members at the annual general meeting the annual financial statements, incorporating the report of the financial director for the period ended 31 December 2011, 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 2011 results | 07 March 2012 |
| Annual report sent on or about | 20 June 2012 |
| Annual General Meeting | 12 July 2012 |
| Interim results published | August 2012 |
| **Dividends** | |
| 2011 Final dividend payment | 27 April 2012 |

## 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.

# 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
Fairground Office Park
PO Box 294
Gaborone

**Auditors**
Ernst & Young
2nd Floor Letshego Place
Khama Crescent
PO Box 41015
Gaborone

**Company Secretary**
Rorisang Modikana

**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: 3951791; 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