Motor Vehicle Accident Fund

Annual Report 2012

Financial statements

for the year ended 31 December 2012

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 31 December 2012

The Board of Directors of Motor Vehicle Accident Fund is 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 applicable requirements of the Motor Vehicle Accident Fund Act of 2007.

The Fund 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 the Fund's assets. The Board of Directors is also responsible for the design, implementation, maintenance and monitoring of these systems of international financial control. Nothing has come to the attention of the Board of 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 Board of Directors has no reason to believe that the Fund will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Fund.

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 financial statements on pages 82 to106 have been authorised for issue by the Board and are signed on its behalf.

Director

Chairman

INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of Motor Vehicle Accident Fund

We have audited the annual financial statements of Motor Vehicle Accident Fund, which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 82 to 106.

Directors' responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Motor Vehicle Accident Fund as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Gaborone
27 March 2013

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 P	2011 P
Net fuel levy income		**87 738 372**	78 302 311
Net third party cover income		**7 953 625**	8 423 037
Net investment Income	2	**129 716 308**	113 466 675
Changes in fair value of investment property	10	**15 380 000**	10 535 565
Changes in fair value of investments at fair value through profit and loss	14	**(817 283)**	9 777 597
Foreign exchange (losses)/gains			
– arising from offshore investments	12	**28 534 110**	98 777 399
– arising from foreign currency bank accounts		**(8 136)**	3 424 268
Other income	3	**554 428**	564 943
Total operating income		**269 051 424**	323 271 795
Net increase in claims provision	4	**(45 955 084)**	(99 461 532)
Reinsurance premium		**(1 623 239)**	(1 406 949)
Investment management fee		**(4 946 423)**	(4 643 648)
Property management expenses		**(4 196 140)**	(1 576 393)
Interest expense		**(35 779 863)**	(36 237 281)
Administrative expenses		**(49 077 926)**	(48 810 665)
		(141 578 675)	(192 136 468)
Surplus for the year before share of profits from associates	5	**127 472 749**	131 135 327
Share of profit from associates	11	**2 566 321**	3 602 211
Surplus for the year		**130 039 070**	134 737 538
Other comprehensive income			
Net fair value gains on available-for-sale investments		**134 508 053**	10 544 365
Gains on revaluation of land and buildings		**1 325 000**	543 000
Road safety campaign expenses		**(7 509 447)**	(8 393 321)
Total comprehensive income		**258 362 676**	137 431 582

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2012

	Notes	2012 P	2011 P
ASSETS			
Non-current assets			
Property plant and equipment	8	**9 235 335**	8 702 741
Intangible assets	9	**1 962 565**	3 998 917
Investment properties	10	**105 968 184**	81 280 000
Investments in associates	11	**17 982 281**	16 958 759
Available-for-sale financial assets (at fair value)	12	**1 772 219 216**	1 565 842 461
Other receivables	15	**21 829 289**	21 367 301
		1 929 196 870	1 698 150 179
Current assets			
Held-to-maturity investments	13	**104 135 996**	123 206 543
Held-to-maturity investments held on behalf of trust	13	**271 027 444**	206 929 376
Financial assets at fair value through profit or loss	14	**318 158 484**	298 766 747
Financial assets at fair value through profit or loss held on behalf of trust	14	**5 129 625**	5 338 645
Trade and other receivables	15	**36 115 178**	33 116 165
Cash and cash equivalents	16	**12 191 228**	14 562 368
Cash and cash equivalents held on behalf of trust	16	**1 769 296**	1 231 226
		748 527 251	683 151 070
Total assets		**2 677 724 121**	2 381 301 249
RESERVES			
Fair value and other reserves	17	**1 467 957 630**	1 286 000 197
Accumulated surplus		**639 163 858**	562 758 615
		2 107 121 488	1 848 758 812
Non-current liabilities			
Trust liabilities	18	**387 975 166**	343 250 243
Current liabilities			
Trust liabilities	18	**49 418 463**	38 011 653
Outstanding claims	19	**105 558 996**	127 049 445
Trade and other payables	20	**27 650 008**	24 231 096
		182 627 467	189 292 194
Total liabilities		**570 602 633**	532 542 437
Total equity and liabilities		**2 677 724 121**	2 381 301 249

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Fair value and other reserves P	Accumulated surplus P	Total P
Balance at 1 January 2011	1 235 788 850	475 538 380	1 711 327 230
Surplus for the year	–	134 737 538	134 737 538
Other comprehensive income			
Revaluation gain on property	543 000	–	543 000
Road safety campaign costs	4 080 875	(12 474 196)	(8 393 321)
Net fair value losses on available-for-sale financial assets	10 544 365	–	10 544 365
Transfer to the claims reserve	35 043 107	(35 043 107)	–
Total other comprehensive income	50 211 347	(47 517 303)	2 694 044
Total comprehensive income	50 211 347	87 220 235	137 431 582
Balance at 31 December 2011	1 286 000 197	562 758 615	1 848 758 812
Balance at 1 January 2012	**1 286 000 197**	**562 758 615**	**1 848 758 812**
Comprehensive income			
Surplus for the year	–	**130 039 070**	**130 039 070**
Other comprehensive income			
Revaluation gain on property	**1 325 000**	–	**1 325 000**
Road safety campaign costs	**7 621 051**	**(15 130 498)**	**(7 509 447)**
Net fair value gains on available-for-sale financial assets	**134 508 053**	–	**134 508 053**
Transfer to the claims reserve	**38 503 329**	**(38 503 329)**	–
Total other comprehensive income	**181 957 433**	**(53 633 827)**	**128 323 606**
Total comprehensive income	**181 957 433**	**76 405 243**	**258 362 676**
Balance at 31 December 2012 (Note 17)	**1 467 957 630**	**639 163 858**	**2 107 121 488**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 P	2011 P
Cash flows from operating activities			
Cash flows from operations	24	**78 791 343**	252 885 734
Effects of exchange rate changes in valuation of available-for-sale financial assets	12	**(28 534 110)**	(98 777 399)
Net cash generated from operating activities		**50 257 233**	154 108 335
Cash flows from investing activities			
Acquisition of property plant and equipment	8	**(2 606 210)**	(1 483 964)
Acquisition of intangibles	9	**(150 000)**	–
Cost of improvements	10	**–**	(204 435)
Proceeds from disposal of property plant and equipment		**458 520**	487 023
Profit received from associates	11	**1 542 799**	2 172 204
Proceeds from disposal of investments		**21 346 958**	–
Acquisition of investments		**(65 172 923)**	(143 451 245)
Net cash used in investing activities		**(44 580 856)**	(142 480 417)
Net expenditure charged to equity		**(7 509 447)**	(8 393 321)
Net change in cash and cash equivalents		**(1 833 070)**	3 234 597
Cash and cash equivalents at beginning of year		**15 793 594**	12 558 997
Cash and cash equivalents at end of year	16	**13 960 524**	15 793 594

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2012

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the measurement of investment properties, freehold properties and certain financial assets and financial liabilities at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the current events and actions, actual results may ultimately differ from those estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies.

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Adoption of standards in future financial periods

The following new standards, amendments and interpretations to existing standards are mandatory to the Fund's accounting periods beginning on or after 1 January 2012.

a. New and amended standards adopted by the Fund.
- IFRS 7, (2011), Transfer of Financial assets (effective 1 January 2012)

b. New and amended standards not yet applicable to the current period and not yet adopted by the Fund.
- IAS 27, (2011), Separate Financial Statements (applicable to 2013 Finacial Statements)
- IAS 28, (2011), Investments in Associates and Joint Ventures (applicable to 2013 Financial Statements).
- IFRS 9, (2009), Financial Instruments (applicable to 2015 Financial Statements).
- IFRS 9, (2010), Financial Instruments (applicable to 2015 Financial Statements).
- IFRS 12, (2011), Disclosure of Interests in Other Entities (applicable to 2013 Financial Statements).
- IAS 19, (2011), Employee Benefits (applicable to 2013 Financial Statements).
- IAS1, (2011), Presentation of Financial Statements (applicable to 2013 Financial Statements).
- IFRS 13, (2011), Fair Value Measurement (applicable to 2013 Financial Statements).

Management is currently assessing the impact of the application of these new standards, ammendments and interpretations on the Fund's financial statements in the period of initial application. At this time, the adoption of these standards and interpretations is only expected to have an impact on the classification and disclosure of items in the Fund's financial statements.

2 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Botswana Pula, which is the functional and presentation currency of the Fund.

Transactions and balances

Assets and liabilities denominated in foreign currencies are translated to the measurement currency at the rates of exchange ruling at year-end. Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3 Investments in associates

Associates are those entities in which the Fund has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Fund holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are also recognised initially at cost. The cost of the investment includes transaction costs. The financial statements include the Fund's share of the profit or loss and other comprehensive income of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases.

When the Fund's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discounted except to the extent that the Fund has an obligation or has made payments on behalf of the investee.

4 Property, plant and equipment

All property, plant and equipment except for freehold and leasehold land and buildings are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bring the asset to working condition for their intended use.

Depreciation is calculated on the straight-line method to write off the cost or valuation of each asset to their residual values over their expected useful lives as follows:

Land and buildings (freehold)	40 years
Land and buildings (leasehold)	Lower of 40 years or remaining period of the lease
Office furniture and equipment	5 years
Computer equipment	3 years
Computer Software	3-10 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial position date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from 'other reserves' to 'accumulated surplus'.

Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Fund. Major renovations are depreciated over the remaining useful life of the related asset.

Property, plant and equipment and other assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

5 Intangible assests – software

Computer software is stated at cost, less amortisation and provisions of impairment, if any.

The identifiable and directly associated external and internal costs of acquiring software are capitalised where the software is controlled by the Fund, and where it is probable that future economic benefits that exceeds its costs will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over three to ten years on a straight line basis.

6 Investment properties

Investment properties, principally comprising office buildings and residential plots are held for long-term rental yields. These properties are treated as long-term investment and are carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in the statement of comprehensive income in accordance with IAS 40.

7 Impairment of assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

8 Financial assets

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and advances, financial assets held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost such as loans and advances to customers;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented

SIGNIFICANT ACCOUNTING POLICIES (Continued)

for the year ended 31 December 2012

risk management or investment strategy and reported to key management personnel on that basis are designated as fair value through profit or loss; and

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated as fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'.

(b) Loans and receivables

The Fund did not have loans at the finacial position date. The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the financial position date. These are classified as non-current assets. The fund's receivables comprise trade and other receivables and staff receivables at the financial position date.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. If the fund was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale financial assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade-date – the date on which the Fund commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the entity's right to receive payment is established.

The fair values of quoted financial assets in active markets are based on current bid prices. If there is no active market for a financial asset, the Fund establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

9 Offsetting Financial Instruments

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

10 Leases

The Fund is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Fund is the lessor

Assets leased out under operating leases are included in property, plant and equipment and investment properties in the statement of financial position. The assets included under property, plant and equipment are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment and the assets held under investment properties are stated at fair values. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

11 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call accounts with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

12 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

13 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The Fund recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

14 Employee benefits

Pension obligations

The Fund has a pension scheme, which falls under the category of a defined contribution plan, and this is funded through payments to a privately administered Fund. A defined contribution plan is a pension plan under which the Fund pays fixed contributions into a separate entity (a pension plan) and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods. For this contribution plan, the Fund contributes 20% of staff salary cost every month to a privately administered defined contribution plan on a contractual basis in respect of staff members who are in the scheme. Once the contributions have been paid, the Fund has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

15 Claims

The Fund is required by applicable regulations and IFRS to recognise a liability for payment of claims. This liability represents the estimated ultimate cost to settle claim occurring prior to but still outstanding as of the financial position date. Claim liabilities fall in to two categories: liability for reported losses and liability for incurred but not reported (IBNR) losses.

The Fund's liability for reported losses is based on estimates of future payments to settle reported claims. The Fund generally establishes these liabilities on an undiscounted basis to recognise estimated costs of bringing pending claims for final settlement taking into account inflation as well as other factors. The Fund reviews and re-evaluates claim liabilities on a regular basis. Amounts ultimately paid for claims can vary from the estimates initially made.

The Fund has established a liability for IBNR claims to recognise the estimated cost of loss for events which have already occurred but which have not yet been notified. As those losses have not yet been reported, the Fund relies upon historical information to estimate its IBNR liability. The Fund also use reported claim trends and other factors in estimating its IBNR liability. This liability is revised as additional information becomes available and claims are actually reported.

Recoveries on claims paid either through right of recourse or from reinsurers are recognised on receipt.

16 Insurance reserve

The Insurance reserve is maintained at a sum equivalent to 1.5 times of the amount calculated based on the complementary loss ratio method. The required amount is appropriated out of accumulated surplus into the insurance reserve every year. If the annual complementary loss ratio calculation results in a reduction in the insurance reserve, the brought forward insurance reserve balance is left unadjusted.

17 Undertaking liabilities

The liability of undertaking is in respect of future medical costs for claims, where future medical expenses are anticipated. The Fund has undertaken to meet these medical expenses in the future as and when they are incurred. The Fund estimates the present value of future medical costs and the necessary Funds are deposited into separate interest bearing accounts from which payments are made. The amount of undertaking liability falling due within twelve months of the statement of financial position date is shown as current liability.

18 Trust account liabilities

The trust account liabilities reflect the claim costs incurred in respect of minors. The Fund estimates current value of the claims and thereafter proceeds are transferred to interest bearing accounts where it will be held until it is paid to the claimant upon attainment of an age of 21 years. The amount of trust account liability falling due within twelve months of the statement of financial position date is shown as current liability.

19 Road safety campaign reserve

The Road safety reserve is established to cater for any road safety initiatives that could be undertaken in the course of the Fund's business. The amount to be appropriated is determined during the budget process which is approved by the Board. During 2012 : P15 130 498 (2011 : P12 474 196) was appropriated to road safety reserve.

20 Impairment of financial assets

(a) Assets carried at amortised cost

The fund assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

for the year ended 31 December 2012

The criteria that the fund uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower/investee (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's/investee's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the fund may measure impairment on the basis of an instrument's fair value using an observable market price.

(b) Assets classified as available-for-sale

The fund assesses at each financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

21 Revenue recognition

Fuel levy

Fuel levy revenue comprises fuel levy charged to fuel importers into Botswana. This levy income is accounted for on an accrual basis.

Interest income

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Fund.

Dividends

Dividends are recognised when the right to receive payment is established. These relate to investments in local shares.

Rental income

Revenue includes gross rental income, service charges and management charges from properties and income from property trading. Rental income is accrued on a straight-line basis over the contractual periods as and when the Fund becomes entitled to the income.

22 Use of estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

KEY SOURCES OF ESTIMATION UNCERTAINTY

For the year end 31 December 2012

Claims

The Fund establishes a claim liability account, which comprise estimates of future payments for reported (known) claims and unreported claims ('IBNR') with respect to events which could result in an expense to the Fund. Provisioning is a complex process dealing with uncertainty requiring the use of informed estimates and judgements. Any changes in the estimates are reflected in the statement of comprehensive income in the period in which estimates are changed.

Delays occur in notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the financial position date. The liability for claims is determined on the basis of information currently available, however it is inherent in the nature of the business that the ultimate liability may vary as a result of subsequent developments.

Incurred But Not Reported (IBNR) Claims

The Fund engaged AON Hewitt (Acturial) to determine the IBNR figure and this exercise was completed in February 2013.

The IBNR figure was calculated on the basis of an acturial reserving method which relies on past claims experience. The Bornhuetter-Fergusson (BF) method was applied for the 2012 accident year and the Average cost Per Claim (ACPL) method for the year 2011 and prior accident years.

Impairment of available-for-sale financial assets

The Fund determines that available-for-sale financial assets are impaired where there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Fund evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Residual values of property plant and equipment

Residual values are based on expected future circumstances measured at current prices. Land and buildings are shown at fair values, based on annual valuations by external independent valuators, less subsequent depreciation for buildings.

Basis for determining fair values of financial assets

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arms length transactions or other valuation techniques commonly used by market participants.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

The Board is ultimately responsible to ensure that the Fund is not exposed to risks which may have a negative impact on its financial performance, and which may ultimately have an adverse effect on the continued operations of the Fund. Compliance with a set of comprehensive risk management policies are an integral part of the Fund's day-to-day activities and systems of internal controls have been implemented to prevent and detect risks.

The Fund is exposed to the following significant risks:

1.1 Credit risk

The Fund takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Fund by failing to discharge an obligation. Credit risk is one of the important risks for the Fund's business; the Fund therefore, carefully manages its exposure to credit risk. Credit exposures arise principally on trade and other receivables, staff receivables and cash at bank. The credit risk management process and controls are monitored by the Board regularly.

Credit risk measurement

Financial assets that are potentially subject to credit risk consist principally of cash and cash equivalents, trade receivables, other receivables and staff receivables. The Fund is exposed to this risk in the event that a counter party fails to meet its repayment obligations as and when they fall due.

In the Fund's endeavour to control credit risk, investment and disbursement procedures ensure that disbursement decision making is rigorous, controlled, documented and in compliance with agreed policies and operating guidelines as specified by the board.

Trade and other receivables

Trade and other receivables predominantly represents interest receivable on short term investments included in cash and cash equivalents and other investment income receivables.

Staff receivables represent loans given to staff. The Fund has a number of schemes under which staff may apply for loans or guarantees.

Cash and cash equivalents

Cash and cash equivalents represent short term investments of surplus funds from the Fund as well as claimants monies in trust accounts. The Fund holds short term investments in various financial institutions based on the Individual risk limits set based on limits set by the Board. Cash and cash equivalents and deposits are placed only with reputable institutions. The investment department of the Fund takes decisions in this regard to create value for the Fund by investing prudently in a variety of investment vehicles. During the year the Fund had placed these financial assets with Stanlib Investment Management Services, BANC ABC, Bank Gaborone, Standard Chartered Bank, Barclays Bank of Botswana Limited and Botswana Savings Bank.

Risk limit control and mitigation policies

The Fund manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties.

The Fund is guided by the Investment Policy Statement in terms of how the Fund's assets are to be invested and to which institutions. The loans given to employees are in accordance with the General Conditions of Employment. The total amount of any loan, or loans granted by the Fund will be limited to an amount, or amounts under which the total monthly deductions do not exceed 50% of the employee's net monthly salary. Provisions have been made for doubtful debts where necessary.

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment.

Management determine that objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Fund:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg; equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;

The Fund's policy requires the review of individual financial assets that are significant at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Based on the objective criteria set out above, no provision for impaired assets is recognised as of the year end.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Fund resulting from both its investment and receivables based on the following:

	2012 P	2011 P
Trade and other receivables		
Trade receivables	**8 464 438**	8 868 488
Third Party receivable	**2 200 953**	2 027 028
Other receivables	**22 332 463**	18 720 337
Staff receivables	**24 946 615**	24 231 621
	57 944 469	53 847 474
Analysis of trade and other receivables		
Neither past due nor impaired	**57 517 302**	53 407 206
Past due but not impaired	**427 167**	440 268
	57 944 469	53 847 474

Aging of past due but not impaired trade and other receivable

	Over 90 days P	Total P
As at 31 December 2012		
Other receivables and prepayments	427 167	427 167
	427 167	427 167

Debt securities, treasury bills and other investments

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2012, based on various credit rating organisations such as Fitch, Global Credit Rating, Moodys and Peermont.

	Cash and cash equivalents P	Held to maturity investments P	Total P
As at 31 December 2012			
A- to A+	**13 848 137**	**216 503 678**	**230 351 815**
Lower than A-	–	**158 659 762**	**158 659 762**
Unrated	**112 387**	–	**112 387**
	13 960 524	**375 163 440**	**389 123 964**
As at 31 December 2011			
A- to A+	15 690 776	151 403 234	167 094 010
Lower than A-	–	182 292 383	182 292 383
Unrated	102 818	–	102 818
	15 793 594	333 695 617	349 489 211

Industry sectors

The following table breaks down the Fund's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Financial instruments P	Real estate P	Wholesale & retail trade P	Public sector P	Other P	Total P
Available-for-sale financial assets	**508 623 755**	**54 412 128**	**73 259 725**	**165 916 896**	**190 132 594**	**992 345 098**
Offshore investments	**104 261 382**	–	**302 897 498**	–	**372 715 238**	**779 874 118**
Held-to-maturity investments	**375 163 440**	–	–	–	–	**375 163 440**
Financial assets at fair value through profit or loss	**37 728 310**	–	**7 628 438**	**277 931 361**	–	**323 288 109**
Trade receivables	–	–	**8 464 438**	–	–	**8 464 438**
Third party cover	–	–	–	**2 200 953**	–	**2 200 953**
Other receivables	**13 947 909**	–	–	**4 229 872**	**4 154 682**	**22 332 463**
Cash and cash equivalents	**13 960 524**	–	–	–	–	**13 960 524**
As at 31 December 2012	**1 053 685 320**	**54 412 128**	**392 250 099**	**450 279 082**	**567 002 514**	**2 517 629 143**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

	Financial instruments P	Real estate P	Wholesale & retail trade P	Public sector P	Other P	Total P
Available-for-sale financial assets	508 772 349	56 292 402	112 426 016	–	102 064 690	779 555 457
Offshore investments	76 790 331	–	226 859 143	–	369 214 025	672 863 499
Held-to-maturity investments	330 135 920	–	–	–	–	330 135 920
Financial assets at fair value through profit or loss	17 638 753	–	7 651 500	391 142 885	–	416 433 137
Trade receivables	–	–	8 868 488	–	–	8 868 488
Third party cover	–	–	–	2 027 028	–	2 027 028
Other receivables	8 589 186	–	–	4 229 872	5 901 279	18 720 337
Cash and cash equivalents	15 793 594	–	–	–	–	15 793 594
As at 31 December 2011	957 720 133	56 292 402	355 805 147	397 399 785	477 179 994	2 244 397 460

1.2 Market risk

a) Foreign exchange risk

The Fund takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Fund is guided by the Investment Policy Statement in terms of how the Fund's assets must be invested offshore. The table below summarises the Funds' exposure to foreign currency exchange rate risk at 31 December 2012. Included in the table are the Fund's financial instruments at carrying amounts, categorised by currency.

	BWP P	US Dollar P	Total P
As at 31 December 2012			
Assets			
Available-for-sale financial assets	**992 345 098**	**779 874 118**	**1 772 219 216**
Held-to-maturity investments	**375 163 440**	–	**375 163 440**
Financial assets at fair value through profit or loss	**323 288 108**	–	**323 288 108**
Trade receivables	**8 464 438**	–	**8 464 438**
Third party receivable	**2 200 953**	–	**2 200 953**
Other receivables and prepayments	**22 332 463**	–	**22 332 463**
Staff receivables	**24 946 613**	–	**24 946 613**
Cash and cash equivalents	**13 960 525**	–	**13 960 525**
	1 762 701 638	**779 874 118**	**2 542 575 756**
Liabilities			
Trust liabilities	**437 393 629**	–	**437 393 629**
Outstanding claims	**105 558 996**	–	**105 558 996**
Accounts payable	**27 650 008**	–	**27 650 008**
	570 602 633	–	**570 602 633**
Net on – financial position	**1 192 099 005**	**779 874 118**	**1 971 973 123**
As at 31 December 2011			
Assets			
Available-for-sale financial assets	779 555 457	673 959 258	1 453 514 715
Held-to-maturity investments	330 135 920	–	330 135 920
Financial assets at fair value through profit or loss	416 433 137	–	416 433 137
Trade receivables	8 868 488	–	8 868 488
Third party receivable	2 027 028	–	2 027 028
Other receivables and prepayments	18 720 337	–	18 720 337
Staff receivables	24 231 621	–	24 231 621
Cash and cash equivalents	15 793 594	–	15 793 594
	1 595 765 582	673 959 258	2 269 724 840
Liabilities			
Trust liabilities	381 261 896	–	381 261 896
Outstanding claims	127 049 445	–	127 049 445
Accounts payable	24 231 096	–	24 231 096
	532 542 437	–	532 542 437

Sensitivity analysis

The following sensitivity analysis is monitored on the following major currencies of non-equity instruments, had a 5% increase arising on the various currencies.

	Effect on surplus for the year	
	2012	2011
Currency		
US Dollar/Botswana Pula	38 993 706	33 697 963
As a percentage of accumulated surplus	6.10%	5.99%

Concentration of risks of financial assets with market risk exposure

Geographical sectors

The following table breaks down the Fund's main US Dollar credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2012. For this table, the Fund has allocated exposures to regions based on the country of domicile of the counterparties (Note 11).

	Europe P	Canada & US P	Other country P	Total P
Available-for-sale financial assets	**177 320 301**	**238 230 387**	**109 686 013**	**525 236 701**
Financial assets at fair value through profit or loss	**99 715 452**	**105 845 765**	**45 936 347**	**251 497 564**
Cash and cash equivalents	**549 474**	**1 730 059**	**860 320**	**3 139 853**
As at 31 December 2012	**277 585 227**	**345 806 211**	**156 482 680**	**779 874 118**
Available-for-sale financial assets	145 879 742	175 499 763	115 506 773	436 886 278
Financial assets at fair value through profit or loss	81 748 553	100 733 171	29 211 860	211 693 584
Cash and cash equivalents	2 826 313	15 384 255	6 073 069	24 283 637
As at 31 December 2011	230 454 608	291 617 189	150 791 702	672 863 499

b) **Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Investment Policy Statement sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Investment Department.

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 mth P	1-3 mths P	3-12 mths P	1-5 years P	Over 5 years P	Total P
As at 31 December 2012						
Assets						
Held-to-maturity investments	**203 972 735**	**107 442 760**	**63 747 945**	–	–	**375 163 440**
Financial assets at fair value through profit or loss	–	–	**18 584 924**	**197 979 766**	**106 723 418**	**323 288 108**
Staff receivables	**351 858**	**423 385**	**2 342 080**	**8 066 465**	**13 762 824**	**24 946 612**
Cash and cash equivalents	**13 960 524**	–	–	–	–	**13 960 524**
	218 285 117	**107 866 145**	**84 674 949**	**206 046 231**	**120 486 242**	**737 358 684**
Liabilities						
Accounts payable	**10 713 650**	–	**13 084 939**	–	–	**23 798 589**
	10 713 650	–	**13 084 939**	–	–	**23 798 589**
Total interest repricing gaps	**207 571 467**	**107 866 145**	**71 590 010**	**206 046 231**	**120 486 242**	**713 560 095**
As at 31 December 2011						
Held-to-maturity investments	178 831 128	98 917 944	52 386 849	–	–	330 135 921
Financial assets at fair value through profit or loss	–	–	112 327 745	147 055 850	157 049 542	416 433 137
Staff receivables	258 884	531 727	2 073 710	7 907 450	13 459 851	24 231 622
Cash and cash equivalents	15 793 594	–	–	–	–	15 793 594
	194 883 606	99 449 671	166 788 304	154 963 300	170 509 393	786 594 274

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

	Up to 1 mth P	1-3 mths P	3-12 mths P	1-5 years P	Over 5 years P	Total P
As at 31 December 2011						
Liabilities						
Accounts payable	7 549 980	–	12 062 959	–	–	19 612 939
	7 549 980	–	12 062 959	–	–	19 612 939
Total interest repricing gaps	187 333 626	99 449 671	154 725 345	154 963 300	170 509 393	766 981 335

Sensitivity of net interest income

	2012 P	2011 P
Net interest arising from a shift in yield curves of +100 basis points (P'000)	(10 348 605)	(6 669 204)
As a percentage of accumulated surplus	-1.62%	-1.19%
Net interest arising from a shift in yield curves of - 100 basis points (P'000)	10 348 605	6 669 204
As a percentage of accumulated surplus	1.62%	1.19%

1.3 Liquidity risk

Liquidity risk is the risk that the Fund is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace Funds when they are withdrawn. The consequence may be the failure to meet obligations towards payment of claims.

Liquidity risk management process

The Fund's liquidity management process is carried out within the Fund by the finance department,which includes;

- Day-to-day Funding is managed by monitoring future cash flows to ensure that requirements can be met.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and
- Monitoring the statement of financial position liquidity ratio against internal and regulatory requirements.

Non-derivative cash flows

The table below presents the cash flows payable by the Fund under non-derivative financial liabilities by remaining contractual maturities at the financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Fund manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 mth P	1-3 mths P	3-12 mths P	1-5 years P	Over 5 years P	Total P
As at 31 December 2012						
Trust liabilities	**9 461 926**	**9 178 121**	**30 778 417**	**203 954 374**	**184 020 790**	**437 393 628**
Outstanding claims	**2 845 335**	**15 318 278**	**87 395 383**	–	–	**105 558 996**
Accounts payable	**10 713 650**	–	**13 084 939**	–	–	**23 798 589**
Total liabilities	**23 020 911**	**24 496 399**	**131 258 739**	**203 954 374**	**184 020 790**	**566 751 213**
Total assets	**194 883 606**	**107 866 145**	**84 674 949**	**120 486 242**	**2 113 413 813**	**2 621 324 755**
As at 31 December 2011						
Trust liabilities	10 015 314	11 036 345	16 959 995	90 453 304	252 796 938	381 261 896
Outstanding claims	5 412 637	11 456 509	110 180 298	–	–	127 049 444
Accounts payable	7 549 980	–	12 062 959	–	–	19 612 939
Total liabilities	22 977 931	22 492 854	139 203 252	90 453 304	252 796 938	527 924 279
Total assets	194 883 606	99 449 671	166 788 304	170 509 393	1 719 418 431	2 351 049 404

1.4 Items not included in the statement of financial position

Capital commitments and operating lease commitments

Capital commitments for the acquisition of property, plant and equipment disclosed in Note 21 are summarised in the table below.

Where the Fund is the lessee, the future minimum lease payments under cancellable operating leases, as disclosed in Note 21, are summarised in the table following.

	Not later than 1 year	1-5 years	Total
	P	P	P
As at 31 December 2012			
Capital commitments	**936 491**	-	**936 491**
Operating lease commitments	**3 923 670**	**870 562**	**4 794 232**
	4 860 161	**870 562**	**5 730 723**
As at 31 December 2011			
Capital commitments	691 743	-	691 743
Operating lease commitments	4 021 770	3 058 697	7 080 467
	4 713 513	3 058 697	7 772 210

1.5 Fair value of the financial assets and liabilities

	Carrying value 2012	Fair value 2012	Carrying value 2011	Fair value 2011
	P	P	P	P
Financial assets				
Available-for-sale financial assets (at fair value)	**1 772 219 216**	**1 772 219 216**	1 565 842 461	1 565 842 461
Held-to-maturity investments	**375 163 440**	**375 163 440**	330 135 919	330 135 919
Financial assets at fair value through profit or loss	**323 288 109**	**323 288 109**	304 105 391	304 105 391
Trade and other receivables	**57 944 467**	**57 944 467**	54 483 466	54 483 466
Cash and cash equivalents	**13 960 524**	**13 960 524**	15 793 594	15 793 594
	2 542 575 756	**2 542 575 756**	2 270 360 830	2 270 360 830
Financial liabilities				
Trust liabilities	**437 393 629**	**437 393 629**	381 261 896	381 261 896
Outstanding claims	**105 558 996**	**105 558 996**	127 049 445	127 049 445
Trade and other payables	**27 650 008**	**27 650 008**	24 231 096	24 231 096
	570 602 633	**570 602 633**	532 542 437	532 542 437

1.6 Categories of financial assets and liabilities

	2012	2011
	P	P
Financial assets		
Available-for-sale financial assets (at fair value)	**1 772 219 216**	1 565 842 461
Held-to-maturity investments	**375 163 440**	330 135 919
Financial assets at fair value through profit or loss	**323 288 109**	304 105 391
Loans and advances (other receivable)	**57 944 467**	54 483 466
Cash and cash equivalents	**13 960 524**	15 793 594
	2 542 575 756	2 270 360 830
Financial liabilities		
Trust liabilities	**437 393 629**	381 261 896
Outstanding claims	**105 558 996**	127 049 445
Trade and other payables	**27 650 008**	24 231 096
	570 602 633	532 542 437

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

2 INVESTMENT INCOME

	2012 P	2011 P
Interest	**48 826 586**	47 882 387
Dividends	**69 235 908**	62 080 405
Net gain/(loss) from sale of investment securities	**15 316 864**	(829 627)
Fair value loss on available for sale investments	**(8 085 336)**	-
Rental income	**4 422 286**	4 333 510
	129 716 308	113 466 675

3 OTHER INCOME

	2012 P	2011 P
Profit on disposal of plant and equipment	**458 520**	487 023
Sundry income	**95 908**	77 920
	554 428	564 943

4 NET INCREASE IN CLAIMS PROVISION

	2012 P	2011 P
Increase in claims provision (Note 19)	**49 456 769**	104 300 590
Right of recourse recoveries	**(353 903)**	(393 633)
VAT claimed on claims payment	**(3 147 782)**	(4 445 425)
	45 955 084	99 461 532

5 SURPLUS FOR THE YEAR BEFORE TAX

The following items have been charged/(credited) in arriving at the surplus for the year:

	2012 P	2011 P
Depreciation on property plant and equipment (Note 8)	**2 630 616**	2 417 870
Auditors' remuneration – audit fees	**289 087**	316 160
Directors' emoluments – board sitting fees and expenses	**230 585**	170 244
Repairs and maintenance – property plant and equipment	**244 478**	310 763
Profit on disposal of plant and equipment	**(458 520)**	(487 023)
Operating lease rentals paid – property	**512 964**	497 605
Staff costs (Note 6)	**28 796 785**	26 072 198

6 STAFF COSTS

	2012 P	2011 P
Salaries and wages	**21 614 057**	19 814 529
Pension costs – defined contribution plan	**1 982 357**	2 320 704
Leave pay and gratuity	**4 015 965**	2 861 893
Staff welfare	**1 184 406**	1 075 072
	28 796 785	26 072 198

7 TAXATION

The income of the Fund is exempt from income tax in terms of Part One of the 2nd schedule of the Income Tax Act. Therefore no provision has been made in respect of income tax.

8 PROPERTY PLANT AND EQUIPMENT

	Freehold land and buildings P	Office furniture & equipment P	Computer equipment P	Motor vehicles P	Total P
Year ended 31 December 2012					
Net book amount at beginning of year	**4 054 428**	**1 528 523**	**740 111**	**2 379 679**	**8 702 741**
Additions	–	**107 258**	**507 116**	**1 991 836**	**2 606 210**
Revaluations	**1 325 000**	–	–	–	**1 325 000**
Disposals	–	–	–	–	–
Transfer to Investment Properties	**(768 000)**	–	–	–	**(768 000)**
Depreciation	**(134 969)**	**(521 381)**	**(580 490)**	**(1 393 776)**	**(2 630 616)**
Net book amount at end of year	**4 476 459**	**1 114 400**	**666 737**	**2 977 739**	**9 235 335**
At 31 December 2012					
Cost/valuation	**5 000 000**	**5 734 452**	**6 312 512**	**7 065 438**	**24 112 402**
Accumulated depreciation	**(523 541)**	**(4 620 052)**	**(5 645 775)**	**(4 087 699)**	**(14 877 067)**
Net book amount	**4 476 459**	**1 114 400**	**666 737**	**2 977 739**	**9 235 335**
Year ended 31 December 2011					
Net book amount at beginning of year	3 607 616	1 870 623	1 209 710	2 436 445	9 124 395
Additions	–	274 790	270 711	938 463	1 483 964
Revaluations	543 000	–	–	–	543 000
Correction of prior	–	–	(30 747)	–	(30 747)
Disposals	–	–	–	–	–
Depreciation	(96 188)	(616 890)	(709 563)	(995 229)	(2 417 870)
Net book amount at end of year	4 054 428	1 528 523	740 111	2 379 679	8 702 742
At 31 December 2011					
Cost/valuation	4 443 000	5 627 194	5 805 396	5 073 602	20 949 192
Accumulated depreciation	(388 572)	(4 098 671)	(5 065 285)	(2 693 923)	(12 246 450)
Net book amount	4 054 428	1 528 523	740 111	2 379 679	8 702 742

9 INTANGIBLE ASSETS

	Software P	SAP project costs P	Total P
Cost			
At 1st January 2012	**3 879 488**	**10 364 263**	**14 243 751**
Additions	–	**150 000**	–
At 31 December 2012	**3 879 488**	**10 514 263**	**14 393 751**
Accumulated amortisation			
At 1st January 2012	**(1 658 080)**	**(8 586 754)**	**(10 244 834)**
Amortisation charge	**(408 843)**	**(1 777 509)**	**(2 186 352)**
At 31 December 2012	**(2 066 923)**	**(10 364 263)**	**(12 431 186)**
Net book value	**1 812 565**	**150 000**	**1 962 565**
Cost			
At 1st January 2011	3 879 488	10 364 263	14 243 751
At 31 December 2011	3 879 488	10 364 263	14 243 751
Accumulated amortisation			
At 1st January 2011	(1 219 639)	(5 031 737)	(6 251 376)
Amortisation charge	(438 441)	(3 555 017)	(3 993 458)
At 31 December 2011	(1 658 080)	(8 586 754)	(10 244 834)
Net book value	2 221 408	1 777 509	3 998 917

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

10 INVESTMENT PROPERTIES

	Leasehold properties P	Freehold properties P	Total P
Balance at 1 January 2012	**56 120 000**	**25 160 000**	**81 280 000**
Additions	–	**9 308 184**	**9 308 184**
Fair value gains	**11 940 000**	**3 440 000**	**15 380 000**
Balance at 31 December 2012	**68 060 000**	**37 908 184**	**105 968 184**
Year ended 31 December 2011			
Balance at 1 January 2011	48 670 000	21 870 000	70 540 000
Improvements	204 435	-	204 435
Fair value gains	7 245 565	3 290 000	10 535 565
Balance at 31 December 2011	56 120 000	25 160 000	81 280 000

The details of the leasehold investment properties included above are as follows:

Description		Date of acquisition	Lease period (years)	2012 P at valuation	2011 P at valuation
MVA Fund House	Land	Feb 94	50		
	Completion of building	Jan 99		**56 000 000**	47 780 000
Plot 16413 Gaborone West	Land	Dec 84	99		
	Completion of building	Sep 90		**1 900 000**	1 490 000
Sheraton Houses	Land	Jan 91	50		
	Completion of building	Nov 93		**8 800 000**	5 820 000
Plot 19465 and 19466 Francistown	Building			**660 000**	500 000
Plot 24559 Francistown	Building			**700 000**	530 000
Tati River plots Francistown	Land			**768 000**	–
	Completion of building			**8 540 184**	–
				77 368 184	56 120 000

	2012	2011
Freehold properties included above are as follows:		
Phakalane Acacia Park		
Plot numbers 54171 54172 54173 54174 54175 54176 54177 54178 and 54179	**12 300 000**	9 670 000
Phakalane Segodi Park		
Plot numbers 55614 55616 55618 55624 55640	**12 200 000**	12 000 000
Phakalane Golf Estate		
Plot numbers 53628	**4 100 000**	3 490 000
	28 600 000	25 160 000
Total value of investment properties	**105 968 184**	81 280 000

The above properties were revalued as at 31 December 2012 by Apex Properties (Pty) Ltd. The properties were independently valued on the basis of open market value of the investment property. The properties are located in Gaborone and Francistown.

11 INVESTMENTS IN ASSOCIATES

	2012 P	2011 P
At beginning of year	**16 958 759**	15 528 752
Share of net results for the year	**2 566 321**	3 602 211
Profits distributed	**(1 542 799)**	(2 172 204)
At end of year	**17 982 281**	16 958 759

Investments in associates comprise the following:

Name of associate	Fund's share of investment
Engen – Maun partnership	25% (2011 – 25%)
Engen – Palapye partnership	20% (2011 – 20%)
Francistown retail property partnership	25% (2011 – 25%)

The Fund's share of assets and liabilities and the results of the associates are summarised below:

	2012 P	2011 P
Non current assets	**17 985 081**	14 884 546
Current assets	**3 676 222**	3 167 516
Current liabilities	**(255 935)**	(231 765)
Net assets	**21 405 368**	17 820 297
Revenue	**3 049 881**	4 087 241
Expenses	**(483 560)**	(485 030)
Applicable net profit	**2 566 321**	3 602 211

There were no commitments or contingent liabilities on the associates at the year end.

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS (AT FAIR VALUE)

	2012 P	2011 P
At beginning of year	**1 565 842 461**	1 200 741 706
Exchange differences	**28 534 110**	98 777 399
Additions	**46 879 983**	147 219 856
Transfer from financial assets at fair value through profit or loss (reclassification)	-	100 921 197
Disposals	**(6 509 840)**	-
Fair value gains/(losses)transferred to equity	**134 508 053**	10 544 365
Botswana Building Society Dividend capitalised	**14 265 035**	11 406 549
Fair value loss	**(8 085 336)**	-
Management fees	**(3 215 249)**	(3 768 611)
At end of year	**1 772 219 217**	1 565 842 461

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Available-for-sale financial assets comprising principally domestic marketable equity securities and units in foreign unit trust schemes are valued annually at the close of business on 31 December in accordance with IAS 39. For investments traded in active markets fair value is determined by reference to Stock Exchange quoted bid prices. There were no provisions for impairment on available-for-sale financial assets in 2012 and 2011. An analysis of securities held is given below.

	Number of shares		Fair value	
	2012	2011	2012	2011
Domestic investments	P	P	P	P
Barclays Bank of Botswana Limited	**23 736 440**	26 736 440	**154 286 860**	181 807 792
Botswana Insurance Holdings Limited	**10 735 164**	10 735 164	**111 108 947**	104 131 091
Chobe Holdings Limited	**536 727**	536 727	**1 368 654**	1 153 963
Engen Botswana Limited	**6 858 692**	6 858 692	**42 249 543**	37 722 806
First National Bank of Botswana Limited	**51 053 910**	50 993 910	**142 950 948**	132 584 166
Furnmart Limited	**12 474 840**	12 474 840	**19 959 743**	18 712 259
G4S Botswana Limited	**1 257 300**	1 257 300	**6 915 150**	7 543 800
KYS Investments Limited	**8 019 796**	8 019 796	**5 613 857**	6 415 837
MRI Botswana Limited	**738 444**	738 444	**383 991**	487 373
RDC Properties Limited	**1 645 221**	1 645 221	**10 693 937**	11 516 547
Sefalana Holding Company Limited	**19 996 769**	19 996 769	**64 989 497**	55 990 951
Sechaba Brewery Holdings Limited	**6 568 980**	6 568 980	**103 461 435**	79 156 209
Standard Chartered Bank Botswana Limited	**10 027 700**	10 027 700	**100 277 000**	90 249 300
Turnstar Holdings Limited	**6 950 000**	6 950 000	**10 355 500**	9 035 000
Primetime Property Holdings Limited	**2 358 827**	2 358 827	**4 245 889**	4 010 006
Cresta Marakanelo Limited	**9 250 010**	9 250 010	**7 400 008**	7 307 508
New African Properties Limited	**15 324 633**	15 109 928	**29 116 803**	31 730 849
Choppies Enterprises Limited	**5 390 458**	–	**11 050 439**	–
Botswana Building Society	**165 916 897**	112 327 745	**165 916 897**	112 327 745
Total domestic equity investments			**992 345 098**	891 883 202
Offshore investments			**779 874 118**	673 959 258
Total available-for-sale financial assets			**1 772 219 216**	1 565 842 460

Offshore investments are managed by independent fund managers in a variety of offshore investments which include money market and equity investments. The investment guidelines to the Fund managers are to achieve growth through moderate risk investments. At 31 December 2012 the portfolio composition was as follows:

Equity investments	67.3% (2011 – 65%)
Cash and cash equivalents	32.2% (2011 – 4%)
International bonds	0.4% (2011 – 31%)

The offshore investments consisted of investments with the following Fund managers:

Investec Asset Management – Botswana	US$51 579 302 (2011 – US$ 46 158 588)
Blackrock Asset Management	US$50 867 315 (2011 – US$ 45 324 250)

13 HELD-TO-MATURITY INVESTMENTS

	2012	2011
	P	P
Fixed Deposits – at cost	**270 665 042**	231 119 534
Money market deposits	**104 498 398**	99 016 385
	375 163 440	330 135 919
Less: Deposits held on behalf of trust	**(271 027 444)**	(206 929 376)
Fixed Deposits held as investments by the Fund	**104 135 996**	123 206 543

The effective interest rate on fixed deposits was between 6.7%-7.6% per annum (2011 – 5.90%-7.20%).

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 P	2011 P
At beginning of year	**304 105 392**	406 064 396
Additions	**20 000 000**	19 804 596
Transfers to held-to-maturity investments (reclassification)	–	(100 921 197)
Maturity	–	(30 620 000)
Changes in fair value	**(817 283)**	9 777 597
At end of year	**323 288 109**	304 105 392
Less: investments held on behalf of trust	**(5 129 625)**	(5 338 645)
Investments held by the Fund	**318 158 484**	298 766 747

Financial assets at fair value through profit or loss are classified as current assets because they may be realised within 12 months of the statement of financial position date. In the statement of cash flows these investments are presented within the section on operating activities as part of changes in working capital (Note 24).

The details of held for trade investments are as follows:

	Maturity amount	Maturity amount	Interest rate	2012 P	2011 P
Botswana Building Society – Bonds	10 000 000	Dec 16	12.00%	**11 742 718**	12 138 792
	7 300 000	Dec 23	11.20%	**8 486 146**	8 169 196
	10 000 000	Nov 19	11.10%	**11 668 488**	11 395 295
	8 213 000	Aug 18	1.5% above BOBC rate	**8 492 019**	8 542 854
Stanbic Bank Botswana Limited	5 000 000	Jun 15	10.70%	**5 529 900**	5 712 345
Barclays Bank of Botswana Limited	10 000 000	Oct 14	0.85% above BOBC rate	**10 339 223**	10 400 608
Debt Participation Capital Funding Limited	8 000 000	Jun 13	10.31%	**8 207 399**	8 541 831
	10 000 000	Jun 16	10.45%	**11 332 944**	11 684 641
Standard Chartered Bank Botswana Limited	5 620 000	Dec 15	1.5% above BOBC rate	**20 338 000**	–
Bank of Botswana Indefinite	1 500 000	Oct 17	0.4% above BOBC rate	**1 521 188**	1 525 800
National Development Bank	4 000 000	Aug 17	11.25%	**4 738 594**	4 834 055
Botswana Vaccine Institute	7 800 000	May 18	11.23%	**9 107 012**	9 206 080
	4 594 000	Jul 15	1.5% above BOBC rate	**4 750 072**	4 778 506
Furnmart Limited	7 500 000	Jul 15	1.6% above BOBC rate	**7 628 438**	7 651 500
Botswana Housing Corporation	8 000 000	Dec 20	10.10%	**8 584 208**	8 214 756
	8 000 000	Dec 17	1.7% above BOBC rate	**8 139 200**	8 163 800
Government bonds					
BW003	64 050 000	Oct 15	10.25%	**72 970 352**	75 573 421
BW004	10 000 000	Mar 11	10.50%	–	–
BW005	25 750 000	Sep 18	10.00%	**30 854 770**	31 079 540
BW007	45 000 000	Mar 25	8.00%	**47 054 018**	44 853 818
BW008	10 000 000	Sep 20	7.75%	**10 592 559**	10 086 534
BW009	10 000 000	Sep 13	7.30%	**10 377 525**	10 574 206
BW010	10 000 000	Mar 17	7.75%	**10 833 336**	10 977 815
				323 288 109	304 105 393

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

15 TRADE AND OTHER RECEIVABLES

	2012 P	2011 P
Trade receivables	**8 464 438**	8 868 488
Third-party receivable	**2 200 953**	2 027 028
Dividends	**5 481 922**	3 791 126
Interest	**12 695 859**	9 027 933
Other receivables and prepayments	**4 154 682**	6 537 270
Staff receivables	**3 117 324**	2 864 320
Total current-trade and other receivables	**36 115 178**	33 116 165
Non-current staff receivables	**21 829 289**	21 367 301
Total trade and other receivables	**57 944 467**	54 483 466

16 CASH AND CASH EQUIVALENTS

	2012 P	2011 P
Cash at bank and in hand	**12 191 228**	14 416 497
Foreign currency bank deposits	–	145 871
Cash and bank balances of the Fund	**12 191 228**	14 562 368
Cash at bank held on behalf of minors' and future medicals trust	**1 769 296**	1 231 226
	13 960 524	15 793 594

For the purposes of the statement of cash flows cash and cash equivalents comprise the following:

Cash and bank balances	**13 960 524**	15 793 594

17 FAIR VALUE AND OTHER RESERVES

	Fair value		Other reserves		
	Available sale investments P	Freehold property P	Insurance reserve P	Road safety campaign P	Total P
Balance at 1 January 2011	663 437 952	(583 925)	562 546 852	10 387 971	1 235 788 850
Revaluation gain	–	543 000	–	–	543 000
Transfer from accumulated surplus	–	–	35 043 107	12 474 196	47 517 303
Expenditure incurred	–	–	–	(8 393 321)	(8 393 321)
Net fair value losses during the year	10 544 365	–	–	–	10 544 365
Balance at 31 December 2011 and 1 January 2012	673 982 317	(40 925)	597 589 959	14 468 846	1 286 000 197
Revaluation gain	–	1 325 000	–	–	1 325 000
Transfer from accumulated surplus	–	–	38 503 329	15 130 498	53 633 827
Expenditure incurred	–	–	–	(7 509 447)	(7 509 447)
Net fair value gains during the year in other comprehensive income	134 508 053	–	–	–	134 508 053
Balance at 31 December 2012	**808 490 370**	**1 284 075**	**636 093 288**	**22 089 897**	**1 467 957 630**

18 TRUST LIABILITIES

	2012 P	2011 P
Undertaking liabilities for future medical expenses	**185 711 143**	159 938 832
Liabilities to minors	**251 682 486**	221 323 064
	437 393 629	381 261 896
Current liability portion	**49 418 463**	38 011 653
Non current liability portion	**387 975 166**	343 250 243
	437 393 629	381 261 896

19 OUTSTANDING CLAIMS

	2012 P	2011 P
Balance at beginning of year	**127 049 445**	127 296 249
Claims paid	**(70 947 217)**	(104 547 394)
	56 102 228	22 748 855
Increase in provision for the year	**49 456 768**	104 300 590
Balance at end of year	**105 558 996**	127 049 445
Comprising of:		
Known claims	**29 379 304**	41 490 644
Estimated unreported claims (IBNR)	**76 179 692**	85 558 801
	105 558 996	127 049 445

20 TRADE AND OTHER PAYABLES

	2012 P	2011 P
Trade Payables	**10 008 813**	4 196 108
Fuel levy refund due	**6 827 186**	6 359 300
Accrued expenses	**3 851 418**	4 618 157
Other payables	**704 837**	3 353 871
Leave pay and gratuity payable	**6 257 754**	5 505 687
Reinsurance training advance	–	197 973
	27 650 008	24 231 096

21 COMMITMENTS AND CONTINGENCIES

Litigations

In the ordinary course of business the Fund is a defendant in various litigations and claims with respect to compensation claims. Although there can be no assurances the Fund believes based on information currently available that the ultimate resolution of these legal proceedings would not have a material adverse effect on the results of its operations financial position or liquidity given the provisions already in place.

Capital commitments

Capital expenditure approved at the financial position date and contracted for but not recognised in the financial statements is as follows:

	2012 P	2011 P
Property plant and equipment	**936 491**	691 743

Operating lease commitments – where the Fund is the lessee

Leases are negotiated and renewed on annual basis.The future aggregate minimum lease payments payable under cancellable operating leases are as follows:

	2012 P	2011 P
Not later than 1 year	**300 275**	381 222
Later than 1 year and not later than 5 years	**165 983**	323 044
	466 258	704 266

Operating lease commitments – where the Fund is the lessor

Leases are negotiated and renewed on annual basis.The future aggregate minimum lease payments receivable under cancellable operating leases are as follows:

	2012 P	2011 P
Not later than 1 year	**3 923 670**	4 021 770
Later than 1 year and not later than 5 years	**870 562**	3 058 697
	4 794 232	7 080 467

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 December 2012

22 RELATED PARTY TRANSACTIONS

	2012 P	2011 P
Directors' remuneration		
Board members' fees and expenses	**230 585**	170 244
	230 585	170 244

23 EVENTS SUBSEQUENT TO THE FINANCIAL POSITION DATE

There were no events that occurred after the financial position date which require adjustments to or disclosure in these financial statements.

24 CASH FLOWS FROM OPERATING ACTIVITIES

	2012 P	2011 P
Net surplus	**130 039 070**	134 737 538
Adjusted for:		
Non cash items		
Depreciation on property, plant and equipment	**2 630 616**	2 448 617
Armotisation of intangible assets	**2 186 352**	3 993 458
Impairment on available for sale investments	**8 085 336**	–
Fair value gains on investment properties	**(15 380 000)**	(10 535 565)
Share of associates profits	**(2 566 321)**	(3 602 211)
Profit on disposal of property, plant and equipment	**(458 520)**	(487 023)
Profit on disposal of investments	**(15 316 864)**	–
	109 219 669	126 554 814
Movements in current assets and liabilities		
Trade and other receivables	**(3 461 001)**	(6 136 614)
Held-for-trade financial assets	**(20 000 000)**	(10 368 742)
Held-to-maturity investments	**(45 027 521)**	44 176 404
Outstanding claims	**(21 490 449)**	(246 804)
Trade and other payables	**3 418 912**	4 007 582
Trust liabilities	**56 131 733**	94 899 093
	(30 428 326)	126 330 919
Cash flows from operating activities	**78 791 343**	252 885 734