



DPF

DEBSWANA • PENSION • FUND



ANNUAL REPORT
2012

About The Debswana Pension Fund

The Debswana Pension Fund (DPF) is a defined contribution established in 1984 as a trust through a joint initiative between, De Beers Botswana Mining Company (now Debswana), Anglo American Corporation Botswana (Pty) Ltd. and De Beers Prospecting Botswana (Pty) Ltd. The primary purpose of the Debswana Pension Fund is to meet future benefit obligations to members as defined by the rules of the Fund, earn positive investment returns on member funds and remain financially sound at all times. The DPF invests member funds across various asset classes namely Property, Equities, Bonds, Cash and alternatives.

Our Philosophy

DPF Vision:

To be the preferred retirement services provider

DPF Mission:

We will provide members with competitive and sustainable retirement benefits through:

- Prudent management of member funds
- Efficient benefits administration
- Provision of focused communication
- Effective socially responsible investments

DPF Values:

- Customer focused
- Trust and Integrity
- Innovation
- Agility
- Self-Driven and Motivated

Fund Contact Details

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JWANENG OFFICE

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 (Tel) + 267 588 4849

Website: www.dpf.co.bw

Statutory Basis & Requirements

The production of this entire report and its distribution to members is designed to comply with various legal instruments/statutes and policies which govern the Debswana Pension Fund, primarily as follows;

The Investment Report is in compliance with Section 3.8 of the Prudential Rule PFR 2 (Communication with Members regarding investment strategy and performance) as provided by the Non-Bank Financial Regulatory Authority.

The Actuarial Report in particular takes into account the requirements in the professional guidelines for actuarial reports (Professional Guidance Note 201) issued by the Actuarial Society of South Africa, which our Actuaries subscribe to, and PFR6 issued by the Non-Bank Financial Institutions Regulatory Authority of Botswana, effective 1 March 2012.

The Financial Statements incorporate significant accounting policies as outlined in detail in the finance report, all of which have been consistently applied in all material respect and compliance with International Financial Reporting Standards. The NBFIRA Prudential Rule PFR4 also gives guidance to the expected parameters for financial analysis and reporting.

Although not a statutory basis for reporting, the NBFIRA prudential rule PFR9 Risk Assessment variables are used to inform the report frameworks for the **Governance/ Compliance** and the **Administration reports**.

The rest of the reports are informed and guided by internal policies that have been put in place by the Fund to ensure internal efficiencies as well as unparalleled service excellence to our internal and external stakeholders.



Foreword: 2012 Market Commentary

After a challenging year in 2011, global markets closed 2012 in generally positive territory, providing much needed relief despite the unresolved macroeconomic issues in Europe and fiscal uncertainty that plagued the United States together with increasing concerns around predictions of slowing global economic growth going forward.

Offshore Market Performance

2012 provided a refreshing turn for the better across all major markets after a rocky 2011. Most major market indices ended the year positive, despite a range of political and economic issues in Europe and the fiscal uncertainty in the US.

2012 started off on a positive note for most major markets; however a slight downturn began during the first quarter of the year driven by increased fears of the European debt crisis. Markets then sold off sharply in the second quarter in response to concerns about the impending Greek election and the fiscal health of Spain and Europe overall. In the third quarter markets began to recover after the European Union (EU) approved an economic growth package and announced the decision to form a single supervisory body for all EU banks. Improving US economic data also provided momentum which resulted in developed markets closing 2012 in positive territory.

Botswana Economy

In 2012 Both Moody's Investors Service (Moody's) and Standard & Poor's (S & P) maintained the investment grade sovereign credit ratings for Botswana of A2 and A-/A-2 (short /long term), respectively, together with a stable outlook. The ratings reflect the strong financial position of the Botswana Government. The rating agencies commended the Government's response to the global financial crisis that instilled confidence that the country will continue to respond appropriately to such challenges. However, there was continued concern that, despite efforts to diversify the economy, the country remained vulnerable to shocks.

The Botswana Government budget for 2012/13 was presented in the context of an uncertain global economic environment, thus underscoring the need to rebuild public finances as a buffer against any future negative economic shocks. Thus, the 2012/13 budget continued the fiscal consolidation efforts and a return to budget surplus, although additional expenditure was also accommodated.

The Botswana economy grew at a rate of 3.7% in 2012 which was significantly below the 6.1% recorded in 2011.

The slowdown in economic growth was mainly driven by a contraction in the construction and mining sectors. Several other sectors, including manufacturing, government, construction, water and electricity also showed slower growth in 2012 relative to 2011. Inflation in Botswana fell from 9.2 % in December 2011 to 7.4 % at year-end, but still exceeded the medium-term objective range of 3 - 6 %. This decline was driven by the subdued prices of commodity sub-groups, including food and housing, which had the effect of holding down overall CPI inflation. The Bank Rate was unchanged at 9.5% throughout the year.

The commercial banks' prime lending rate was also constant at 11% and as a result, movements in BoBC yields were marginal, with the 14-day BoBC yield rising from 4.5% in December 2011 to 4.64% in December 2012.

The Botswana Pula depreciated in nominal terms against most of the SDR currencies in 2012, by 7.6 %, 5 % and 3.2 % against the British pound, the euro and the United States dollar, respectively. The Pula appreciated 0.4 % against the rand during the same period.

Botswana Markets

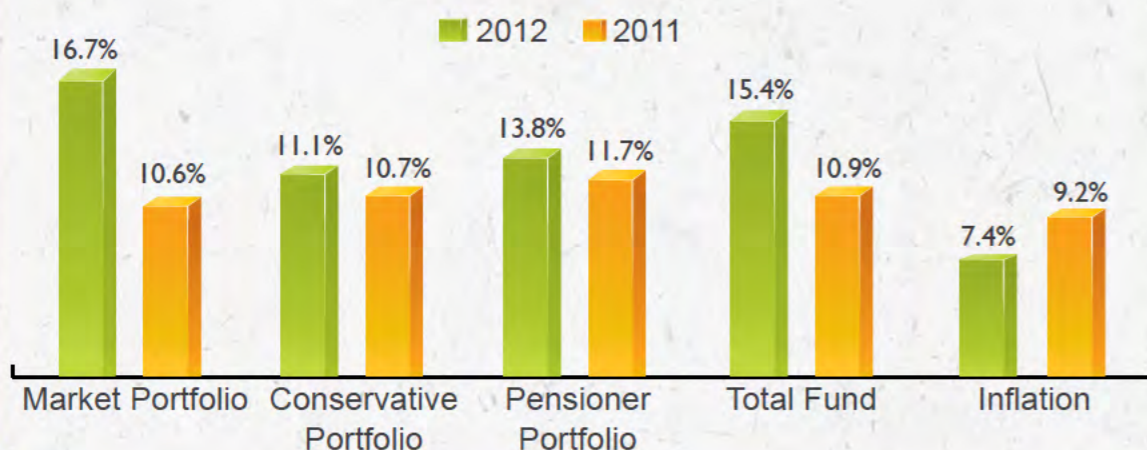
In 2012 the DCI closed the year up 7.71%, on the back of several quarterly gains during the year. This was on the back of an increase in investor confidence within a selection of stocks, particularly Choppies and Letshego. However trading activity decreased to a value of P974million on 401million shares traded versus P1,097 million on 459million shares in 2011. This activity was driven by investor's positive expectations that the market would continue its climb.

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Highlights

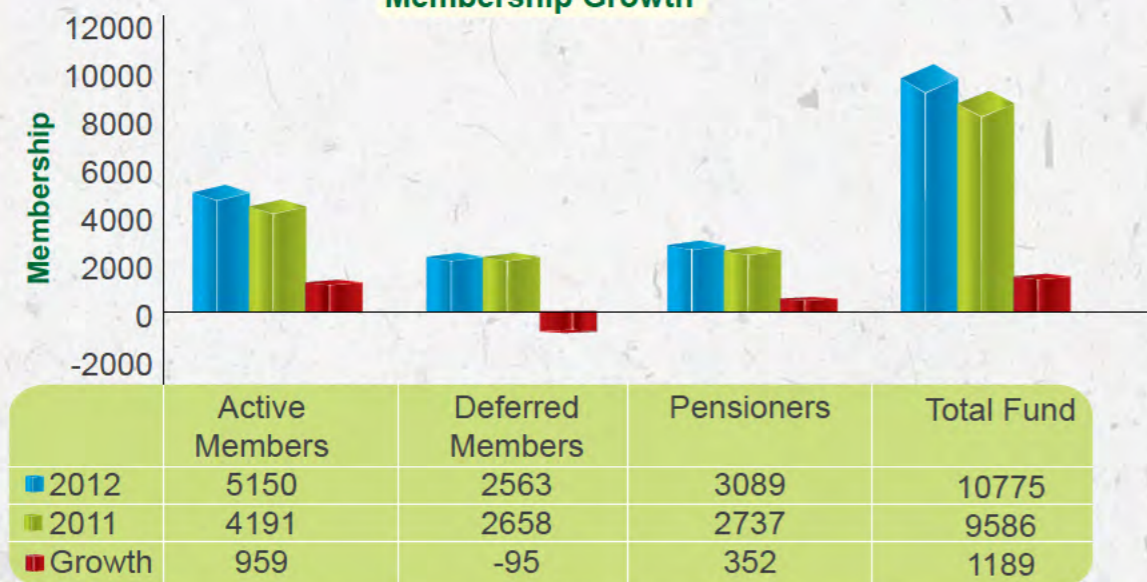
Investment Returns



Fund Value (BWP Million)



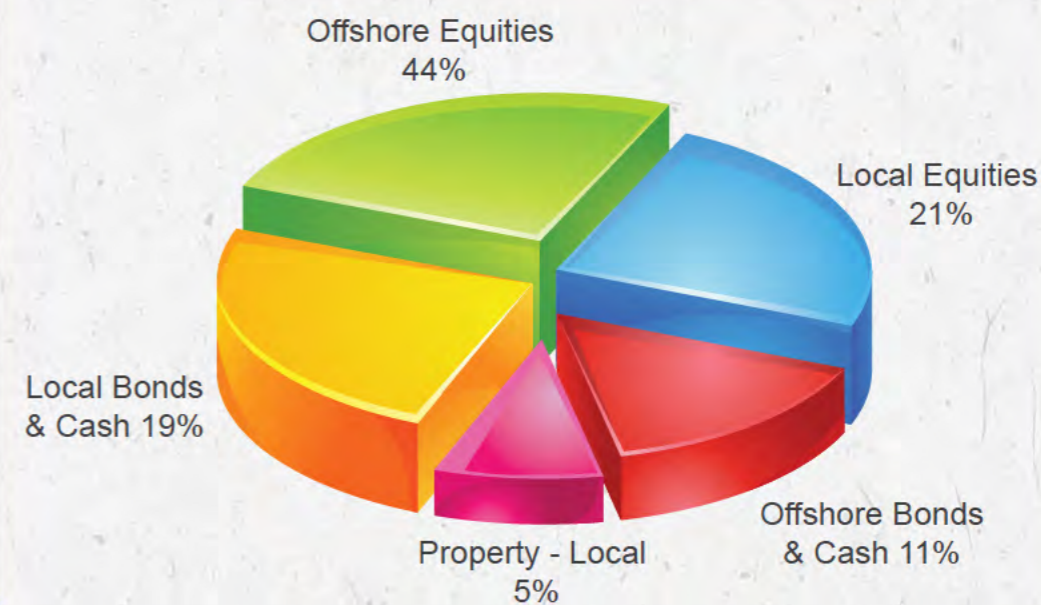
Membership Growth



Revenue Account as at 31 December 2012

Fund as at 31 December 2011	3,393,051,000	Administration and other expenses	24,334,000
Contributions received	168,475,000	Investment fees	27,253,000
Fund Transfers In from other Funds	2,396,000	Withdrawal and Death benefits paid	21,008,000
Income from Investments	99,640,000	Retirement Benefits paid	48,040,000
Adjustment to Fair Value of Assets	450,490,000	Pensioner Death Benefits paid	2,546,000
Reversal of Prior Year non-eligible member expense	33,000	Pensions Paid	77,149,000
Adjustments - Over accrual of withdrawal, death and retirement expense	1,217,000	Transfers out to other Funds	4,728,000
		Adjustments - under accrual of withdrawal, death and retirement expenses	1,310,000
		Fund as at 31 December 2012	3,909,027,000
Total	4,115,302,000	Total	4,115,302,000

Asset Allocation as at 31 December 2012



Board of Trustees

Principal Trustees



Richard Vaka
Board Chairman
Company Appointed Trustee
Debswana Diamond Company



Richard Moroka
Company Appointed Trustee
DTCB



Emmanuel Kgaboetsile
Member Elected Trustee
Debswana Diamond Company
(Orapa, Letlhakane, Damtshaa & Morupule
Mines)



Tshepo Kgalaeng
Member Elected Trustee
Debswana Diamond Company
(Jwaneng Mine)



Gakenaope Gakologelwang
Member Elected Trustee
DTCB
(Gaborone Campus)



Victor Maxwell
Company Appointed Trustee
Debswana Diamond Company

Alternate Trustees



Eunice Mpoloka
Alternate Trustee to Richard Vaka
Debswana Diamond Company



Vuyisile Garekwe
Alternate Trustee to Richard Moroka
DTCB



Petrous Montshloa
Alternate Trustee to Emmanuel Kgaboetsile
Morupule Coal Mine



Mmoloki Onnelle
Alternate Trustee to Tshepo Kgalaeng
Debswana Diamond Company
(Jwaneng Mine)



George Rantshilwane
Alternate Trustee to Gakenaope Gakologelwang
DTCB (Gaborone Campus)

Independent Trustees & Specially Appointed Sub-Committee Members



Neo Mokgwathi

Independently appointed Trustee
Audit and Finance Committee



Wanjiru Kirima

Independently appointed Trustee &
Chairperson Investment Committee



Tom Mongale

Chairperson Human Resources Committee
Debswana Diamond Company



Lesego Makubate

Audit & Finance Committee
(DTCB)



Stephen Seitshiro

Pension Benefits Review Committee
Debswana Diamond Company



Chris Mokgware

Investment Committee
Debeers Botswana Holdings Company

Leadership Team



Gosego January
PRINCIPAL EXECUTIVE OFFICER



Bangidza Dhlwayo
INVESTMENT MANAGER



Neo Ebineng
RISK & COMPLIANCE MANAGER



Francis Seelo
FUND ACCOUNTANT



Agatha Sejo
COMMUNICATION MANAGER



Wangu Thipe
OPERATIONS MANAGER



Chairman's Message

On behalf of the DPF Board of Trustees, I present to you the 2012 Annual Report of the Debswana Pension Fund.

This message complements the detailed information that you will find in the rest of the report in terms of Fund performance, strategic objectives and future aspirations of the DPF. We endeavor to send out our annual report to members and beneficiaries each year at least by the end of the second quarter when our year end program is complete i.e. audits, valuations etc. This is also done in compliance with the statutory requirements for communication to members. Detailed information about the Fund can be sourced further on the Fund's website at www.dpf.co.bw

2012 has been quite a busy year in all DPF activities. The Fund's operations have continued to improve significantly following the interventions made in 2011 to eliminate the operational challenges that were alluded to in the 2011 report. I am pleased to confirm that your board of trustees is satisfied with the progress made and very optimistic about future prospects of the Fund. You will also recall that following from that experience, your Trustees commissioned a Strategy review for the Fund at the end of 2012 in order to determine the way forward for the DPF. This review will be implemented and the findings reported back to you in the 2013 year.

On the membership front, we are happy to see a recovery in the membership trends having experienced sluggish membership growth between 2009 and 2011. In 2012 the Fund bounced back with a good 22% spike, which signals that the employer environments have also stabilized. With the total number of members now at 11000, the DPF still remain a leader amongst the private sector pension funds. Our investments have also performed well returning favorably beyond benchmarks and targets as reported in detail in other sections of this report.

Our purpose before anything else is to be there for the members and live up to our values of being customer focused, trustworthy with impeccable integrity, and an innovative and agile team that is self-driven and motivated. On reflecting whether we have lived these values in 2012, I wish to commend the Fund management and staff for having tirelessly worked to bring the Fund processes to stability, including being able improve the average response times for benefit processing during the year, monitoring and ensuring regulatory compliance and communicating regularly with members and beneficiaries on developments in the Fund. Their efforts did not go unnoticed as shown by yet another successful year at the regional Best Practice Awards for the pensions industry that were given by the Southern African Institute of Retirement Funds in the same year. The Fund was honored for best practices in Legal and Technical Compliance as well as Best Communication Campaign/Project.

Despite a successful 2012, the Fund, like any other Fund operating in the local and global economic space, is not without challenges, and your Trustees continues to work diligently to achieve a robust governance framework and control environment that will put the Fund in a much needed defensive position to successfully tackle these challenges as and when they arise.

As a step toward that objective some of the important projects that are currently on our agenda for 2013 going forward are:

- *Downscaling fund costs through the implementation of further operational efficiencies in order to achieve an optimal cost-contribution ratio that is commensurate with industry best practice, and one which can afford members the necessary growth margins on their pension savings.*
- *Reviewing our organizational structure and skills base to ensure that the Fund is ideally resourced.*
- *Evaluating growth opportunities that will further enhance service delivery to members and overall Fund prosperity*
- *Reviewing the Board Structure with the aim to enhance trustee skills where gaps may be identified and further empower your Trustees to effectively carry out their mandate.*

In that regard, I look forward to another successful year in 2013 during which we will hopefully achieve many more milestones that will see this Fund exceed your expectations. I would like to take this opportunity to thank each and every one of you, as partners of the Fund, for your continued support and active involvement in efforts to achieve our goals.

It has been a pleasure serving you in 2012. Let's continue to work together to fulfill our brand promise which is to build *Your Fund, Your Security, Your Future.*



Richard Vaka
Board Chairman



Compliance & Governance Report

I. Board Of Trustees

Chairperson: Mr Richard Vaka (July 2012- to date)

- Richard Moroka
- Victor Maxwell (July 2012)
- Emmanuel Kgaboetsile
- Gakenaope Gakologelwang
- Tshepo Kgalaeng (June 2012)

Alternate Trustees:

- Eunice Mpoloka
- Vuyisile Garekwe
- Petrous Montshioa
- George Rantshilwane
- Mmoloki Onneile
- Naseem Lahri (Resigned: February 2013)

The Board is governed by a Board Charter in accordance with the principles of sound corporate governance as recommended by King 111. The Board Charter outlines the responsibilities of the Trustees towards the Fund.

The Board of Trustees usually meets four times in a year and in 2012 the Board had 3 extra special meetings. This was necessitated by the fact that the Fund had to make urgent strategic decisions to ensure business continuity.

Some of the noted resolutions included but were not limited to the Fund's Succession Plan where it was agreed that both Principal Trustees and their alternates must attend Board meetings to ensure continuity where Principal members were withdrawn. This would enable smooth transitions as the Alternate could step-in and assume the role of the Principal Trustee. The Board also approved the formation of a Nominations Committee which will be responsible for Board appointments, evaluations and remuneration.

The Board of Trustees also managed to conduct mid-term review of the Fund's strategy in July 2012, where a Consultant was engaged to assist in reviewing of such.

Among other policies, strategies and reports found in the Fund, the Board managed to;

1. Review Risk Management Strategy, Policy and Matrix. Risks facing the Fund were assessed and mitigations reviewed on quarterly basis.
2. Review and approve the Communication Strategy and plan during the year
3. Review the Investment performance quarterly as well as major capital projects, acquisitions and disinvestments.
4. Review and approve Committees Terms of Reference
5. Review and approve the Performance Management Policy and adopted a Balance Scorecard to track the performance of the Fund. This extended to the evaluation of both the Fund's succession plan and remuneration.

The annual Evaluation of Trustees to assess their effectiveness with regards to decision making, attendance, participation, compliance and adherence to training requirements was successfully conducted. The overall score attained was 81.63 which shows that there was a significant improvement from the previous year where they had scored 75%.

In order to effectively manage the Fund the Board of Trustees has set up four sub committees (in line with Fund Rule 11.10) who act on behalf of the Board but the ultimate responsibility of the Fund still rests with the Board. Each sub-committee has its own specific set of Terms of references that clearly outlines the mandate of the Committee.

Sub - Committees - Investment Committee

Chairperson: Wanjiru Kirima

- Gakenaope Gakologelwang
- Naseem Lahri (Resigned: February 2013)
- Victor Maxwell (Appointed: November 2012)
- Christopher Mokgware (Appointed: November 2012)

The Committee's mandate is governed by the Investment Committee Terms of Reference and is responsible for;

- Reviewing and monitoring of the Investment strategy
- Appointing Investment Consultants, Asset Managers, Property Managers as well as Custodians.
- Advising the Board of Trustees on the Strategic Asset Allocation
- Selecting the various assets within which the funds are invested
- Monitoring and managing the performance of the Fund Managers

Sub - Committees - Investment Committee

- Petrous Montshioa
- Otsenye Tsietso (Resigned: June 2012)
- Naseem Lahri (Resigned: February 2013)

• Developing a tool called a Statement of Investment Principles which guides the committee in carrying out its investment mandate

The Investment Committee usually meets four times per year and in 2012 the Committee eight (8) times.

2012 MAJOR ACHIEVEMENTS

- i. Reviewed and recommended changes to the Committee's Terms of Reference
- ii. Approved the acquisition of Debswana House
- iii. Recommended for approval the investment into a Mezzanine Fund
- iv. Extended Local managers mandates to invest up to 20 of assets under management into the Africa funds
- v. Acquired additional shares in Francistown Retail Partnership thereby increasing its shareholding to 75%

Pension Benefits Review Committee

Chairperson: Gakenaope Gakologelwang (Appointed Chairman: Oct 2012 to date)

Chairperson: Maipelo Motshwane (Jan 2011-April 2012)

- Kaywa Namoshe (Resigned: June 2012)
- Mmoloki Onneile (Appointed: July 2012)
- Vuyisile Garekwe
- Emmanuel Kgaboetsile
- Stephen Seitshiro
- Eunice Mpoloka (Appointed: July 2012)

The Committee's mandate is governed by a Pension and Benefits Review (PBRC) Terms of Reference and is responsible for:

- The proper distribution and disposal of death benefits
- Fund's Communication and member education
- Keeping under review developments in legislative and regulatory requirements
- Recommending for Board Approval early retirement of exits due to ill health

The PBRC usually meets four times per year with additional meetings as required and it convened five (5) times in 2012.

2011-2012 MAJOR ACHIEVEMENTS

- 1) Reviewed and approved Committee's Terms of Reference
- 2) Reviewed and approved Death Benefit payment Policy
- 3) Approved the Communications Strategy and Annual Plan
- 4) Recommended annual Pension Increase

Audit and Finance Committee

Chairperson: Vuyisile Garekwe (Resigned From Chairmanship: November 2012)

Chairperson: Victor Maxwell (Appointed: November 2012)

- Vuyisile Garekwe
- Lesego Makubate
- Otsenye Tsietso (Resigned: June 2012)

The Committee's mandate is governed by a Audit & Finance Committee Terms of Reference and is responsible for:

- Corporate governance
- Reviewing procedures and policies of internal control
- Reviewing the Financial Statements
- The appointment of auditors
- Approving the Debswana Pension Fund Budget
- Ensuring that the Fund has an effective risk management process

Audit and Finance Committee

• Otsenye Tsietso (Resigned: June 2012)	The Audit and Finance Committee usually meets three times per year with additional meetings as required and it convened two (2) times in 2012. 2012 MAJOR ACHIEVEMENTS 1. Reviewed and Recommended the 2011 Financial Statements for approval 2. Reviewed both Internal and External Auditors mandates 3. Reviewed the Auditors Annual Audit Plan as well as Audit Reports 4. Approved Fund's Budget 5. Approved Supplementary Budget for Consultancy Services 6. Reviewed the Purchasing Policy 7. Reviewed the Risk Management Strategy and Policy 8. Reviewed the Committee's Terms of Reference
• Naseem Lahri (Resigned: February 2013)	
• Neo Mokgwathi (Appointed: February 2012)	
• Tshepo Kgalaeng (Appointed: July 2012)	
• Eunice Mpoloka (Appointed: July 2012)	
• Paul Ramokgalo (Appointed: May 2013)	

Human Resources Committee

Chairman: Tom Mongale (July 2011 to date)	The Committee's mandate is governed by the Human Resource (HR) Committee Terms of Reference and is responsible for: • The pursuit of the DPF Human Resource Strategy • Ensuring HR Policy Implementation and Reviews • Reviewing the DPF Balance Scorecard • Ensuring Proper Selection Criteria of DPF Executive Management The HR Committee usually meets two times per year with additional meetings as required and it convened twice (2) in 2012 2012 MAJOR ACHIEVEMENTS 1. Approved Variable Pay Policy 2. Approved the Fund's Succession Plan 3. Approved annual Salary increment
Kaywa Namoshe (Resigned: June 2012)	
• Petrous Montshioa	
• Emmanuel Kgaboetsile	
• Richard Moroka	
• Gakologelwang Gakenaope (Appointed: July 2012)	

Board Meetings and committee meetings attendance during the year ended 31 December 2012.

Board of Trustees	Board & Special Board Meetings	Benefits Review Committee	Investment Committee	Audit and Finance Committee	Human Resources Committee
Meetings/Session Training held	4: Scheduled 7: Held	4: Scheduled 6: Held	4: Scheduled 7: Held	3: Scheduled 2: Held	2: Scheduled 3: Held
Tabake Kobedi (Resigned: April 2012)	1				
Richard Vaka (Appointed: July 2012)	4				
Emmanuel Kgaboetsile	5	5			3
Nchidzi Mmolawa (Resigned April 2012)	2	-	1		
Victor Maxwell (Appointed: Sept 2012)	3		2	1	
Richard Moroka	5		3		2
Kaywa Namoshe (Resigned: June 2012)	2	1			-
Tshepo Kgalaeng (Appointed: July 2012)	3			1	2
Gakologelwang Gakenaope	6	5	5		
Alternates					
Maipelo Motshwane (Resigned: April 2012)	1	4			
Eunice Mpoloka	3	2		2	
Petrous Montshioa	5		5		2
Vuyisile Garekwe	2	2		2	
Otsenye Tsietso (Resigned: June 2012)	1		-		
Onneile Mmoloki	3	2			
George Rantshilwane	5	1			1
Naseem Lahri (Resigned: February 2013)			1	-	
Independent Trustees					
Wanjiru Kirima			7		
Neo Mokgwathi (Appointed: Feb 2012)				2	



Committee Members

Lesego Makubate			5	2	
Stephen Seitshiro		3			
Tom Mongale					3
Christopher Mokgware (Appointed: Sept 2012)			1		

The Principal Executive Committee is the ex-officio member of all the Board and Its sub-committees

Appointment of Principal Officer

The Fund has a clear Service Level Agreement between the Fund and the Principal Officer. There is an agreed process in terms of appointment and removal of the Principal Officer. The Regulatory Authority has reviewed the Principal Officer on the fit and proper criteria provided by the Non- Bank Financial Institutions Regulatory Authority.

The Trustees have established a process of assessing the Principal Officer annually which is monitored by the Balanced Scorecard that has clear set targets. The Fund has also established a training program for the Principal Officer that is reviewed on an annual basis.

There is also a clear mandate for the Principal Officer in terms of relationship and authorities between the Principal Officer and third party service providers including the Fund

Consultant, Auditors, Administrator, Actuary and the Custodian.

Company Secretary

The Company Secretary appointed by the Board is Mrs Neo Ebineng. All Trustees 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.

Trustee Training Programme

In order for Trustees to be able to perform their fiduciary duties diligently and make prudent investments the Compliance department developed a comprehensive training programme that covers a broad spectrum of the pension fund industry topics. During the year 2012 the Trustees were trained by specialist advisors locally and outside the country as well as specific tailor-made in-house training. The course attendance is summarized as per the table below;

Course	Richard Vaka	Richard Moroka	G Gakologelwang	E Kgaboetsile	Tshepo Kgalaeng	Victor Maxwell	Eunice Mpoloka	Vuyisile Garekwe	George Rantshilwane	Petrous Montshioa	Mmoloki Onneile	Christopher Mokgware	Stephen Seitshiro	Lesego Makubate	Neo Mokgwathi	Wanjiru Kirima	Tom Mongale
1. Trustee Induction	*				*	*	*		*		*				*		
2. Advanced Investments Duties									*	*							
3. Prudential Rules Workshop (Botswana Pension Society)			*	*						*							*
4. Governance & Risk Management			*	*					*	*		*	*				
5. IRF Annual Conference					*		*	*	*	*							
6. Botswana Pension Society Annual Conference	*	*	*	*	*	*		*	*		*			*	*		*

Audits

The Internal audit function is established to cover financial matters as well as operational, compliance and sustainability issues. The following are the core functions performed by the Internal Audit which is an independent function from the management.

- Evaluation of the Fund's governance processes;
- Perform an objective assessment of the effectiveness of risk management and the internal control framework;
- Systematically analyse and evaluate business processes and associated controls as delegated by the audit and Finance
- provide a source of information as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities

The Fund has continued to improve on its internal control environment and this was evidenced by the 7 Audits performed by the Internal Auditors in 2012.

Trustees Overall Governance

The Trustees have established a Governance framework in order to protect the interests of all stakeholders including members, Fund and Employer. The governance framework clearly defines the roles and responsibilities of the stakeholders. The Trustees have clearly separated strategic and operational governance functions.

The Board of Trustees has set out a clear mission statement in terms of management of the Fund. The Trustees ensures that the mission/objective receives the commitment from all the relevant stakeholders: (Employer, Board of Trustees, Employee representatives, Pensioners)

The Trustees have established a process to ensure that all decisions are taken in line with the Fund Rules at all times. There is also an established process to ensure that all benefit, risk and changes are signed off by the appropriate stakeholders. The Fund has established appropriate guidelines where authority is delegated to third parties, for contract oversight and compliance checks have been established through the Terms of Reference of the various Committees.

Insurance Policies

There is an established process to ensure that all Insurance Policies (insurance and indemnity covers) for the Board of Trustees, Service Providers, and Members are aligned with legislation, best practice and are updated on an annual basis.

Risk Governance

The Trustees have established a clear process to identify and map out the process to address risks on an annual basis, specifically in terms of a formal five step process

where risks are (i) identified, (ii) quantified, (iii) action taken, (iv) risk re-assessed and (v) risk monitored.

The Trustees have a risk budget and a formal process to analyse and review the annual risk budget.

Debswana Pension Fund policy is to adopt good practices in the identification, evaluation and cost effective control of risks to ensure that they are eliminated where possible, reduced to an acceptable level or managed and contained; and to embed risk management practices within management and planning activities.

The Finance and Audit Committee reviews the risk log in which all key financial and non-financial risks affecting the business are recorded. New risks, if and when identified, are added to the risk log while others fall away over a period of time. A systematic process is used to priorities the risks for ongoing monitoring and management. The Audit and Finance Committee provides the board with recommendations at board meetings. Current risks include, but are not limited to, the regulatory and legal framework, currency and market risk, safety and environment, skills availability and systems development. The board has delegated to the management the responsibility to design, implement and monitor the risk management plan.

Our People



Principal Executive Officer's Review



I am proud to report on yet another successful year for the Fund. 2012 was marked by a concerted and visible effort by the DPF employees to drive the Fund service levels to better heights. We saw notable efficiencies being achieved in our administration, in particular, improved processing turnaround times which resulted in clearance of most of backlogs that had accrued from preceding year.

A key factor in the Fund's service design, delivery and outcomes is customer focus – over the coming years, efforts will be concentrated on engagement with members, employers and other stakeholders in order to ensure that the Fund delivers an efficient, effective and high standard of service that meets the needs of all parties.

As you will note from the divisional reports that will follow, a lot has been achieved in the year and going forward, cost containment and operational optimisation will continue to remain a priority on our agenda. Operational excellence will also form the emphasis in future engagements with the Fund's employers, where crucial factors such as HR Partners training including robust service level agreements are debated and agreed upon to create as much synergy as possible between our operations. We realise that there is an urgent need to strengthen our relationship with employers in order to replenish the pension knowledge gap that has been created by the high staff turnover that was experienced by employers during the restructuring exercises that have occurred over the recent years. Achieving these synergies as soon as possible is critical to the core business of the Fund mainly because of the direct correlation between data integrity and fund value growth. For that reason our HR partners must be knowledgeable enough about pension fund rules, policies and processes in order ensure that clean and up to data is received from employers at all times.

In order to support the Fund's Trustees in their specialist role, some of whom were appointed during the year, a program of Trustee training and development was implemented during 2012 and will continue on a rolling basis in subsequent years. We will provide this support through structured and focused workshops and events (done in-house or through our business partners), which will further enhance the trustees' knowledge and understanding and assist with their overall responsibility of managing the Fund. Given that as a management team we have now managed to achieve stability with our administrative platforms in 2012, our specific focus going forward will be on reviewing current practices and policies along with future strategic plans for the Fund, and also the implementation of the new investment strategies arising from the comprehensive review of our investment policies and products and services, as approved by the board.

As we are always ready to acknowledge; at the core of these objective lies our fundamental obligation as a Fund to fulfill our core mandate which is to invest optimally and prudently manage the Fund in order to create healthy retirement benefits for all of our members. We thank all of our stakeholders for their continued understanding as we go on with the Fund business.

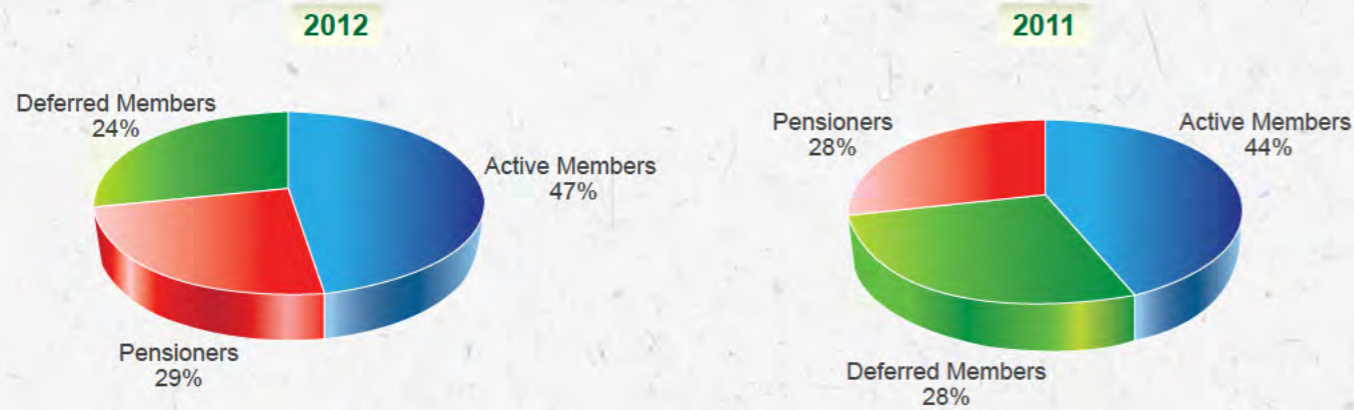
Gosego January
Principal Executive Officer



Administration Report

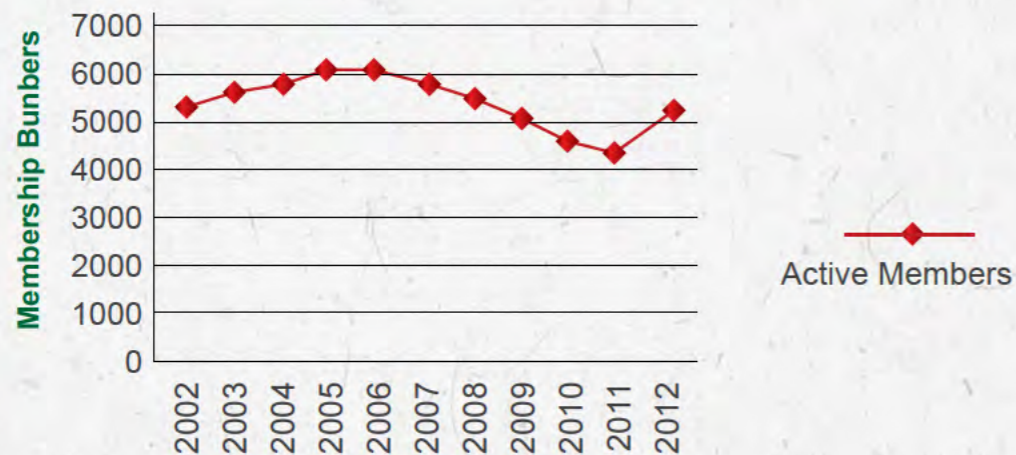
Membership Movements

The year on year movements between the membership portfolios as depicted below show moderate to minimal change in the distribution between Active, Deferred and Pensioner members.



The DPF Active member portfolio has made a significant recovery from the decline experienced between the years 2007 and 2011. From an all-time high of 6021 in 2007, we saw the number eroded by 1830 members or 30% at the end on year 2011. The bulk of this decline is attributable to staff rationalisations by participating employers (mainly Debswana Diamond Company) that transpired during that period. 2012 however registered a good upturn by 932 new members (22%) largely from the staff replenishments following the re-organisation at Debswana.

Active Members - 10 Year trend



Despite the sizeable number of exits prior to 2012, membership movements show that our members continue to trust the DPF's ability to manage and deliver good returns on their long-term retirement investments. This is notable in the fact that a large proportion of the members who migrated from Active membership chose to remain as Deferred and Pensioner members under the DPF. This is shown in the continuous steady rise in total Fund membership over the years, with a 14% growth registered since 2007 to date. Similarly, from 2007 to 2012 the deferred membership portfolio has grown by 624 members or 32% and the pensioner portfolio by 1562 pensioners or 102% for the same period. 2012 alone shows a year-on-year increase of 352 pensioners or 13% growth in the portfolio.

Membership distribution amongst the participating employers as at 31 December 2012 stands as follows;

PARTICIPATING EMPLOYER	NUMBER OF EMPLOYEES	% CONTRIBUTION BY EMPLOYER	% CONTRIBUTION BY EMPLOYEE
DEBSWANA DIAMOND MINING COMPANY	4262	20%	0%
DIAMOND TRADING COMPANY BOTSWANA (DTCB)	407	20%	0%
MORUPULE COAL MINE (MCM)	397	15%	5%
DE BEERS HOLDING BOTSWANA (DBHB)	55	20%	0%
DEBSWANA PENSION FUND (DPF)	24	20%	0%
PEO VENTURE CAPITAL	3	20%	0%
ANGLO COAL BOTSWANA	2	20%	0%
TOTAL ACTIVE FUND MEMBERSHIP	5150		

Debswana Diamond Company retains the largest participating employer base carrying 83% of the active member portfolio. The 4235 members are split between the various operations as follows;

Debswana Membership split per Operations

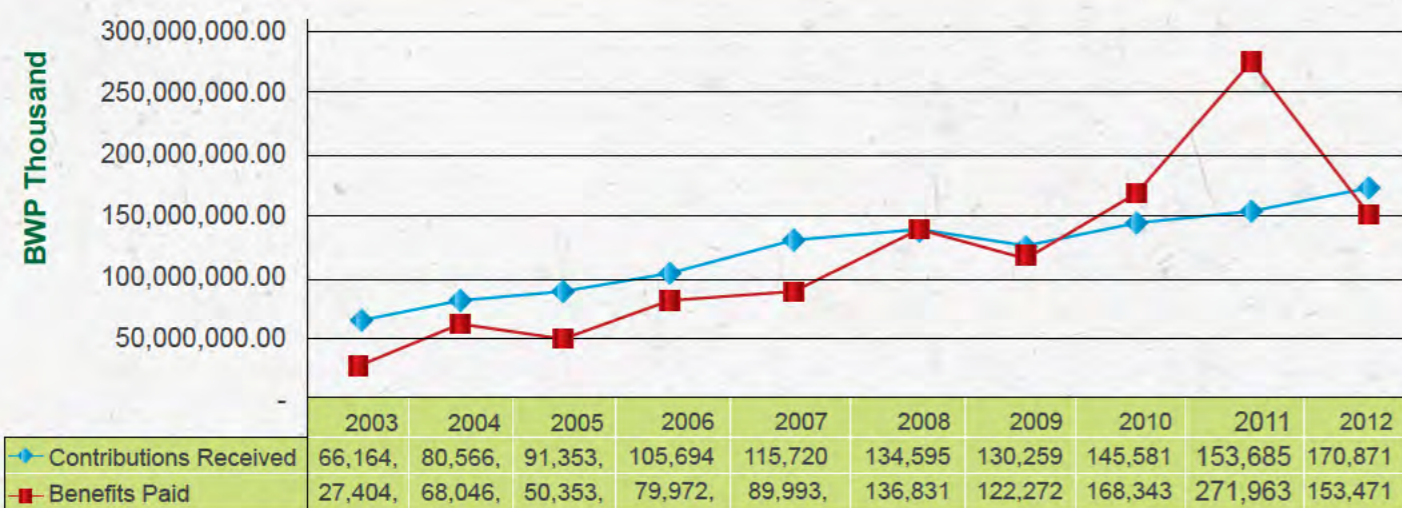


In November 2012 the Board of Trustees approved an application for the inclusion of the new DeBeers Site-holder Sales as part of the family of companies whose pensions are managed under the DPF. A further report on the related membership statistics will be given in 2013. The inclusion of DBGSS increases the number of participating employers under the DPF to eight (8).

Contributions and Benefits payments

In correlation with the membership movement trends registered above, the Fund experienced a sharp rise in the value of benefits paid during the re-organisations period leading up to 2011, the most significant being 2011 when a negative contributions/benefits ratio was registered. With the participating Employer operations now having stabilised during 2012, the sharp decline in benefits payments shown below in 2012 is hopefully expected to continue a downward trend that will restore Fund cash-flows back to normalcy presuming that the situation remain stable within the participating employer structures over the long-term. Contributions received have been on a steady rise despite the irregular benefits payment trend.

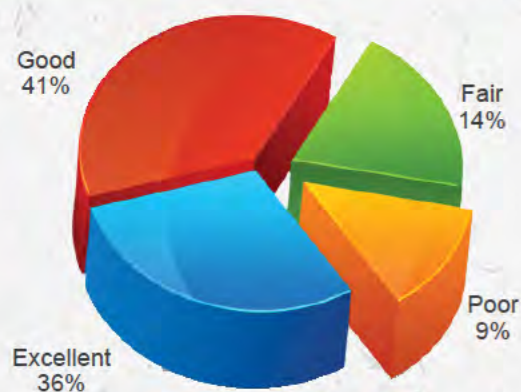
Contributions vs. Benefits Paid 2003-2012 (BWP Thousand)



I.T Systems

The Fund ventured into 2012 amidst a number of challenges pertaining to certain key functionality aspects of its BENCHMARK administration system failing to embed. Delays in administration were experienced between 2011 up to the end of first quarter of 2012. Despite the technical setbacks, the Fund leadership adopted a "Members first" approach to the challenge and implemented interventions that ultimately ensured that the impact of this on service delivery was kept to a minimum. This is evident in the good results recorded from our 2012 end of year Member satisfaction survey as shown below;

Overall 2012 DPF Member Satisfaction



During the second quarter of 2012 the Fund succeeded in embedding the majority of the system problems. As a result, the remainder of 2012 was generally a good and productive year for the Fund administration as reflected in the 2012 external and internal audits report outcomes. We envisage going forward that the remaining gaps (mainly interfaces between systems) should be resolved in the subsequent financial period.

Member Relations

We continue in our efforts to provide quality services to our members and 2012 was no different as we advanced our plans to make the Fund more accessible to members. In April 2012 we set up our first ever satellite offices in Jwaneng and Orapa. These offices are expected to conveniently serve all members; Active, Deferred and Pensioners in the two towns and their surrounding areas where statistically, our membership is mostly concentrated. The offices are in full operation manned with full-time personnel. Members services that the Fund provides include but not limited to; liaison with Human Resources partners at participating employer offices; direct customer liaison and assistance telephonically, electronically or office visits; death benefits investigations, member education programs and workshops etc.



Investment Performance Review

Overview on Total Fund

The Fund grew from P 3,393 billion in December 2011 to P 3,909 in December 2012.

The performance of the fund was driven primarily by global equities which returned 20.4% followed by local equities which gave a return of 13.1%. Local Fixed Income and Global Fixed Income securities delivered an identical return of 7.8%, with money market instruments returning 4.4% over 2012. The Botswana Pula depreciated by 3.3% against the US Dollar in 2012, further contributing to the performance of offshore investments.

At the end of 2012 The Fund had 55.04% of its assets invested offshore with 44.96% invested in Botswana.

During the year the Fund remained relatively aligned with its Strategic Asset Allocation.

Portfolio Performance

The DPF's returns for 2012 were favourable, with the Market, Pensioner and Conservative portfolio's returning 16.7%, 13.8% and 11.1% respectively, the highest since 2009. The returns of the Fund were in excess of the respective benchmarks which were calculated at 12.4% (CPI +5), 11.4% (CPI+4) and 10.4% (CPI+3). The long term position of the portfolios also remains favourable with the portfolios sufficiently meeting their targets as per the strategy.

9-Year Average Portfolio performance since inception of Life Stage Investment Model 2004-2012

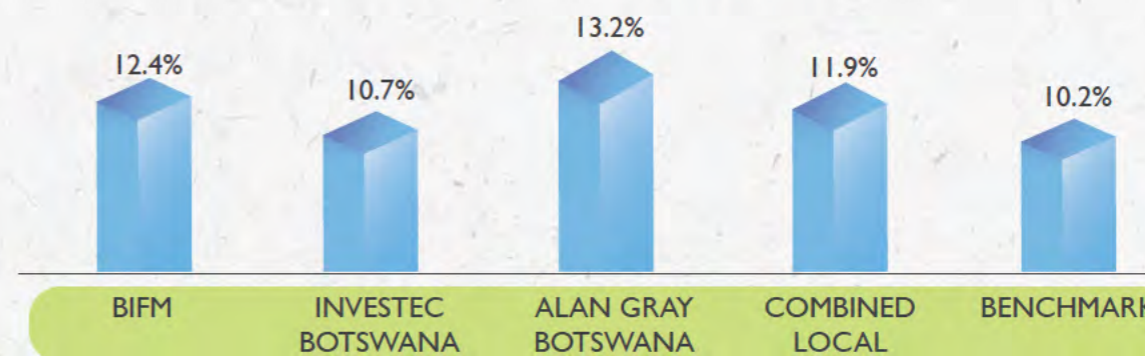


Asset Manager Performance

Local Managers (Balanced Mandates)

In aggregate the Local Managers outperformed the local benchmark by 1.9% p.a. since inception of the life stage model which is a very good result. This has been achieved at materially lower downside risk than the benchmark which has improved risk adjusted returns.

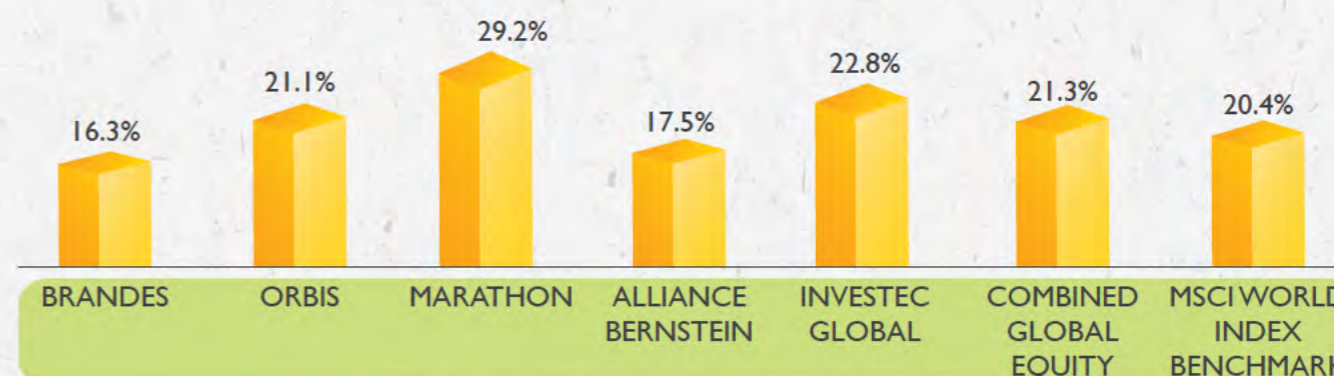
Local Manager performance vs Local Composite Benchmark for 12 months up to 31/12/12



Global Equity Managers

In aggregate the global equity managers underperformed their benchmark by 0.9% since the inception of the life stage model and this has been achieved at slightly higher risk levels than the benchmark. The performance from Brandes and Alliance Bernstein has been disappointing. Please refer to the 'Projects' sub-section below for further information on governance decisions made following manager performance review and Risk evaluations during the preceding period.

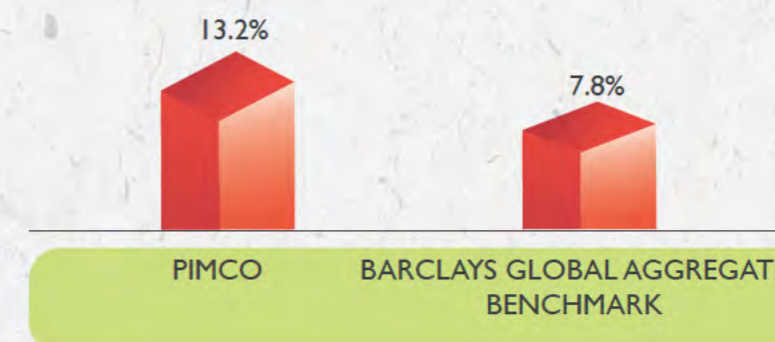
Global Equity Manager Performance vs. Benchmark in Pula for the 12-month period up to 31/12/12



Global Bond Manager

The Fund's only global bond manager PIMCO has outperformed its benchmark by 1.6% p.a. since inception of the life stage model. This has been achieved at a similar risk level to the benchmark. The overall level of skill has been satisfactory for this portfolio.

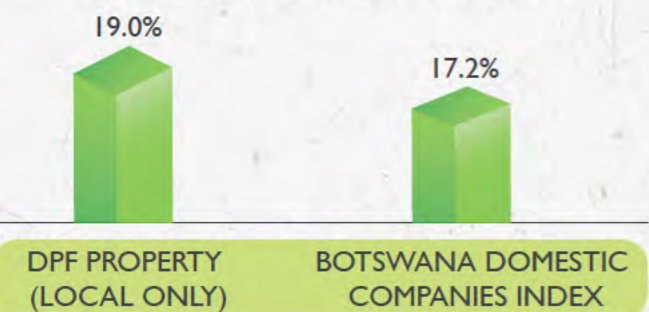
Global Bond Manager performance in Pula vs. Benchmark for the 12-month period up to 31/12/12



Property Performance

The DPF property portfolio is currently managed by Khumo Properties (Pty) Ltd who carry out both asset consulting services and debt collection. The long term cumulative performance shows outperformance of the benchmark by 0.8% since January 2003.

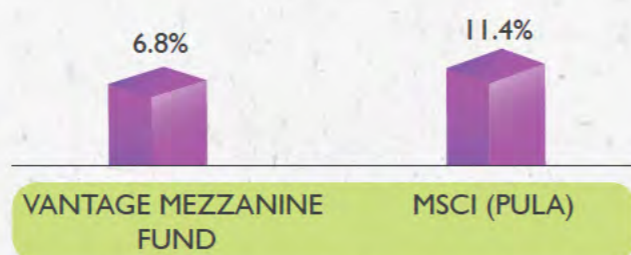
DPF Property performance vs Benchmark for the 10-year period since 2003



Vantage Mezzanine

In 2012 the Fund moved to further diversify its investments to alternative asset classes through an investment in the Vantage mezzanine portfolio. The chart below shows performance for the 9-month period up to December 2012 since its implementation however due to the long-term nature of this investment, no meaningful conclusions can be drawn from this short period.

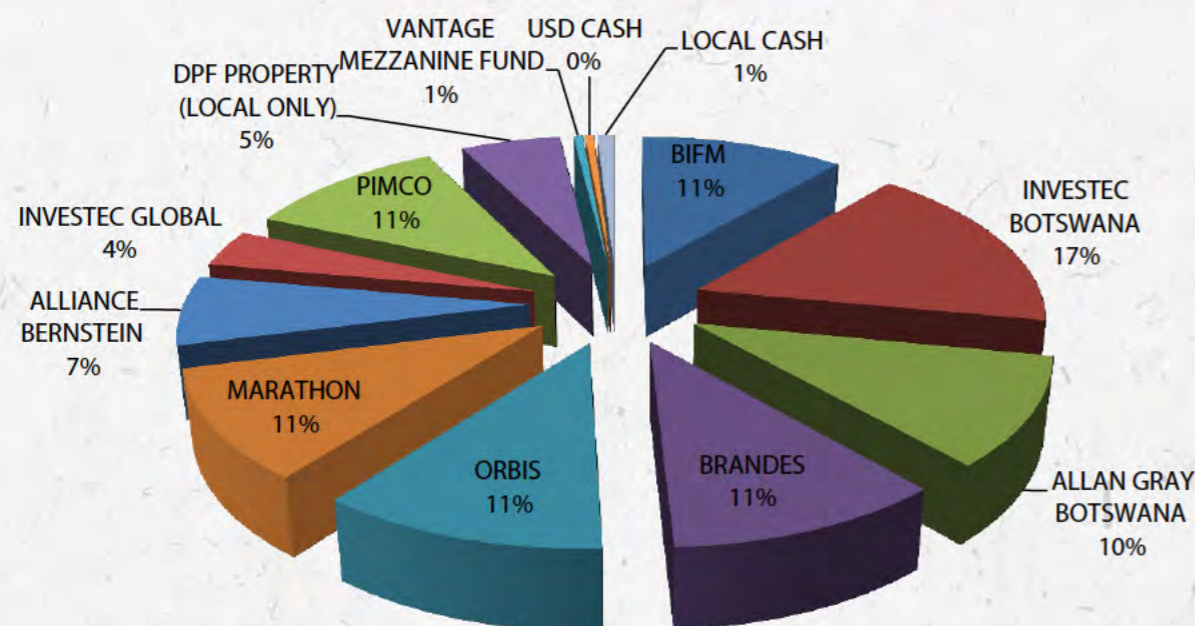
Vantage Mezzanine Fund Performance vs Benchmark for the 9-month period since inception to 31/12/12



Strategic Asset Allocation and Manager Share of Fund as at 31 December 2012

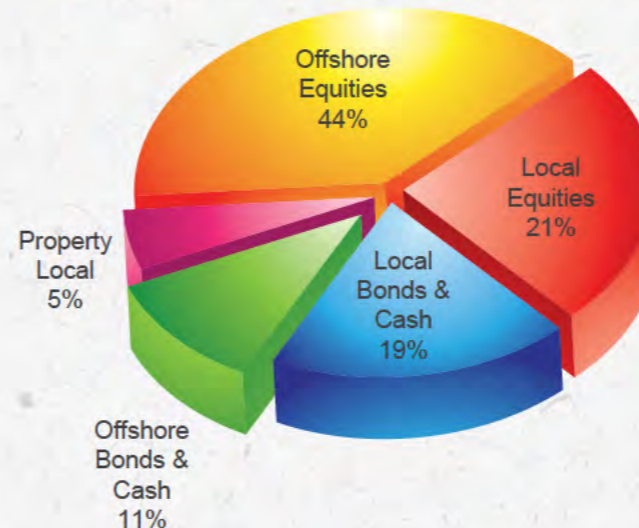
As at year end 2012 the following allocation stood between asset managers

Manager Share of Fund as at 31 December 2012

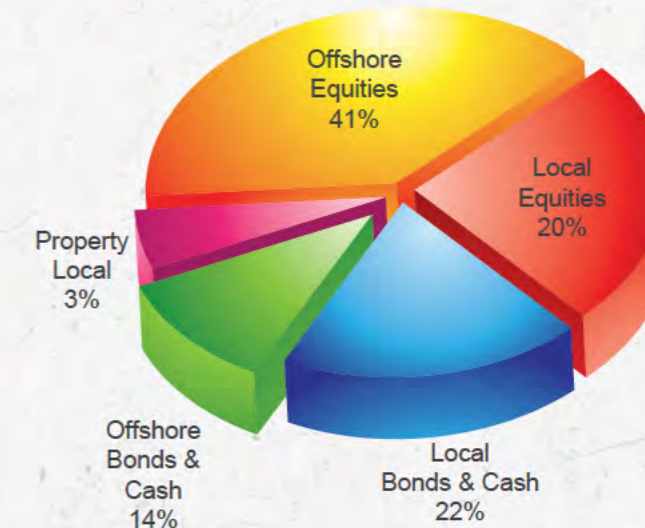


In terms of year-on year changes to strategic asset allocation these were minimal as depicted below. The Fund remains reasonably aligned to its strategic asset allocation.

Asset Allocation as at 31 December 2012



Asset Allocation as at 31 December 2011



2012 Strategic and Regulatory developments

Regulatory changes and impact on Fund investment strategy

In March 2012 the Non-Banking Financial Institutions Regulatory Authority (NBFIRA), Pension Funds Prudential rule came into effect. The NBFIRA's Pension Prudential Rules set out the prudential requirements for regulated pension funds operating in Botswana. The key Investment rules are captured under PFR2-Prudential Investment Rule:

PFR2 – Prudential Investment Rule

The investment rules are broadly based on the thinking around how pension fund investment rules should be applied going forward. The reason why NBFIRA has adopted this framework includes the desire for harmonisation and for efficiency in designing a framework suitable for Botswana Pension Funds.

There are three key components to the pension fund investment rules:

- Investment Strategy
- Prescribed Valuation Method for Pension Fund Assets
- Limits on the Investable Assets

In order for the Fund to implement its investment strategy, the Secretariat has formally requested an exemption from Section 7.7d which sets a maximum investment limit allowable in Offshore Equities to 30% of the total aggregate value of the Fund's assets.

Board review of Investment performance and Dis-Investment decisions

In November 2012, The DPF Board of trustees made a decision to disinvest completely from the Marathon New Global Fund due to the heightened risk which arose from the loss of key personnel at Marathon and possible changes in their investment philosophy. Further disinvestments from Brandes and Alliance Beinstein are also ongoing

Significant New Investment Projects implemented

During the year the Fund made major investments in alternative assets with a commitment of USD 12.5 million to the Vantage Pan African Mezzanine Fund II. The Fund also completed the purchase of Debswana House from Debswana Diamond Company for a total cost of BWP 79,442,755.

Actuarial Valuation Report

Actuarial services for the Debswana Pension Fund are provided by Towers Watson. Actuarial reporting is made to the Board of Trustees however the various sub-committees of the Board may from time to time seek to make recommendations on matters pertaining to actuarial services

Financial Position

The Consulting Actuary performed the actuarial valuation as of 31 December 2012. This valuation revealed that the Fund is in good financial position with an overall surplus of BWP208 million, an increase from BWP136 million experienced in 2011.

The surplus in the Active and Deferred member Account decreased from BWP26 million at 31 December 2011 to BWP24 million at 31 December 2012. This decrease is mainly attributable to an over-allocation on contributions in 2012 which arose from prior year (2011) contributions that were allocated in 2012 due to the administrative delays that were reported in 2011.

The surplus in the Pensioner Account increased from BWP7million at 31 December 2011 to BWP69 million at 31 December 2012. The bulk of the increase, BWP57million is a result of the higher than assumed investment return achieved. The valuation basis effectively assumes an 8.68% return will be achieved, however the actual return earned was some 13.8%. Also attributing to the pensioner account surplus, the Board of Trustees awarded a 4% pensioner salary increase as at 1st July 2012 which was lower than the assumed increase in the valuation basis of 4.5%, resulting in a profit of BWP10 million. The surplus affords the Trustees the ability to award a pension increase to pensioners in excess of the increase actually funded for.

The Fund remains in sound financial condition at 31 December 2012 as the value of assets within each account exceeds the liabilities of the respective account. Funding levels are at 100.9% and 105.7% for the Active Deferred account and Pensioner Account respectively. Total combined position of the Fund revealed increased funding level from 104.2% at 31 December 2011 to 105.6% at 31 December 2012.

Fund Liabilities and Reserves

The benefits of active and deferred members are defined contribution in nature, given that the benefits paid on exit represent the retirement funding contributions paid by or on behalf of members accumulated with the net investment returns earned by the Fund. The total active and deferred liabilities, after allowance for these adjustments, amounted to BWP2.5 million.

The benefits of pensioners who are paid from the Fund are defined benefit in nature, given that pensions are expressed in Pula terms at retirement, the pensioners receive discretionary pension increases each year and are payable for the lifetime of the pensioner (and possibly thereafter to a contingent spouse or children). At retirement, members can elect to purchase a pension from an approved provider outside the Fund or to 'purchase' a pension from the Fund. For members who elect the second option the relevant portion of the member's Individual Investment Account is transferred to the Pensioner Account and converted to a pension using pre-defined factors. The Pensioner liability as at 31 December 2012 is BWP1.2 million.

The Trustees have set aside a contingency reserve with a targeted level of some 3.0% of the Fund assets. A contingency reserve at this level was deemed by the Trustees to be adequate under most non-catastrophic conditions to protect the Fund in future against various contingencies including expense overruns, data errors that may arise in future as a result of the operation of the Fund and to meet pensioner obligations. The Trustees review the level of the contingency reserve from time to time. If at any stage the Trustees regard the level of the contingency reserve as excessive, they can then allocate any excess, as the Trustees deem equitable, to active and deferred members and pensioners. As at 31 December 2012, the balance in the Contingency Reserve Account amounted to BWP115 million, representing some 2.9% of the Fund's assets.

Over the year, the reserve account accrued the investment return achieved on the assets backing the account. The Trustees agreed that part of the contingency reserve account could be used to meet the costs of special projects. The costs amortised in the account for the year ending 31 December 2012 amounted to BWP2.9 million.

Asset Matching Strategy

The Fund Actuaries reported that the matching of the Fund's assets against its liabilities was found adequate. The Fund conducts a monthly process of matching and any adjustments that may be required are incorporated on a monthly basis.

Reassurance of Risk Benefits

The only benefits payable on death are the active members' and deferred members' Individual Investment Accounts and as such, there is currently no need to reassure any risk benefits.

Rule Amendments

No rule amendments were effected during the

inter-valuation period impacting on the financial soundness of the Fund. Rule amendments have been proposed but the impact, if any, will be assessed in the following year's actuarial valuation.

Pension Increases

The Trustees awarded a 4% pension increase to pensions in payment during the 2012 year. The guideline formula adopted by the Fund for granting increases suggested a 3.6% pension increase should be awarded (a 102.5% funding level is targeted based on the formula). The higher increase was however still affordable based on the assets at 31 December 2011.

Fund expenses

Fund expenses (for example administration, audit, actuarial, legal) are met by way of a monthly expense provision as decided by the Trustees, expressed as a Pula amount per month in respect of each pension in payment and each active and deferred member. This expense provision, together with unitisation fees and investment manager fees, are deducted monthly from the fund investment returns and held by the Fund in a separate operations account from which the Fund pays the actual expenses as they arise.

Over the valuation period, the Fund expense charge (excluding investment manager fees) was set at P178.58 per month in respect of each pension in payment and each active and deferred member.

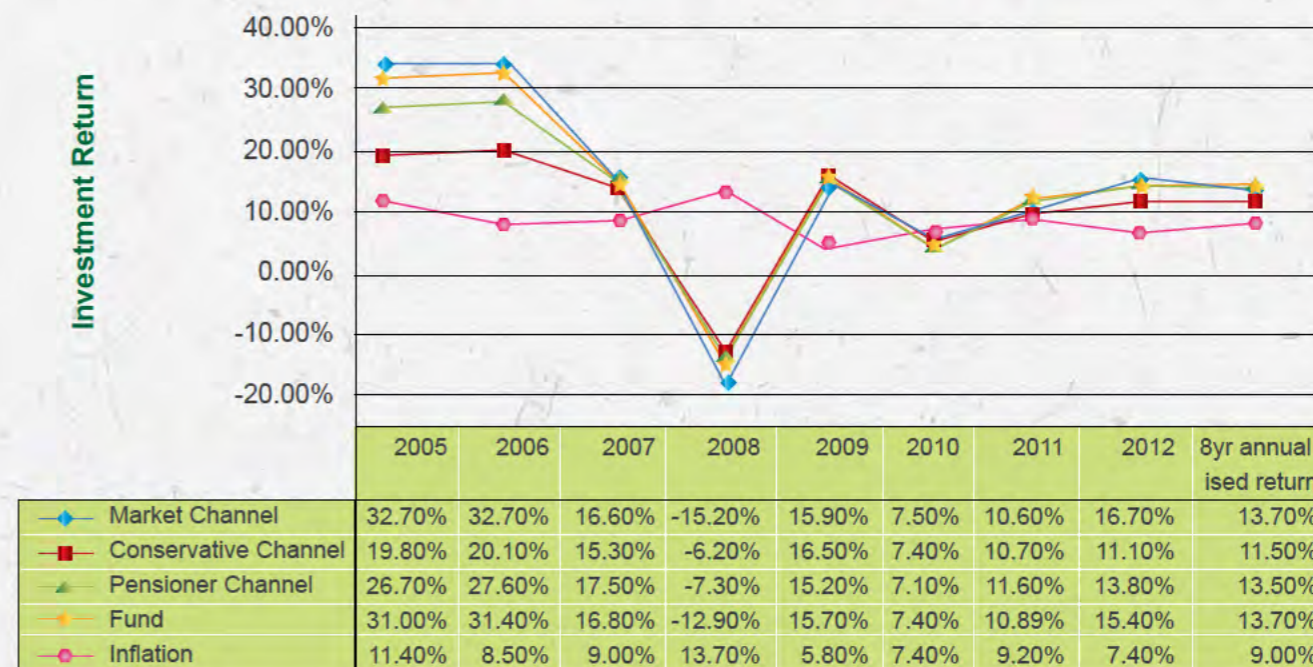
Allocation of investment returns

The Trustees established the investment strategy of the Fund with effect from 1 January 2004. The strategy, which is set out in the document "Statement of Investment Principles - Debswana Pension Fund", allows for a specific strategic asset allocation for the pensioners and a separate and specific asset allocation for the active and deferred members and the contingency reserves. This approach is designed to take account of the different liability profiles applicable to the different categories of the Fund.

Active and deferred members are credited monthly with the actual net investment returns (positive or negative) achieved on the relevant assets. Similarly, the Pensioner Account and contingency reserve accounts are credited monthly with the actual net investment returns (positive or negative) achieved on the relevant assets backing the accounts.

A history of the gross returns achieved on the Investment Channels within the Fund, namely the Market Channel, the Conservative Channel and the Pensioner Channel are set out below.

8-Year annualised Investment Returns



Communication Report

Overview

Debswana Pension Fund implements on an annual basis a comprehensive communication plan that aims to meet its communication objectives for members and other stakeholders as well as ensure compliance to the published statutory requirements for pension fund communication as per clause 9 of the Pensions and Provident Funds Act (1988) of Botswana. Our communication is managed in-house through a fully established communication department that consists of a Communication Manager, Communication Officer and Communication Intern. In terms of governance, the Benefits and Communications Committee of the Board of Trustees reviews and approves the DPF communication strategy on an annual basis.

The DPF develops its own communication strategy through the expert knowledge of in-house personnel however for creative support during implementation an advertising agency is contracted. The incumbent agency Footprint Advertising, were awarded a 3-year contract through a tender process in June 2012 to provide such services to the Fund.

The DPF maintains a rolling communications strategy that is reviewed annually to responds to any changes or developments that may transpire in the external and internal environment. We strive to be innovative in our approach and are constantly seeking to explore and take advantage of emerging communication best practices. To support this objective we have ensured, through a deliberate training program, that our employees remain registered and active members of recognized international professional bodies such as the Public Relations Institute of Southern Africa (PRISA) and the International Association of Business Communicators (IABC), where they have the opportunity on an ongoing basis to network with their peers to learn and share on the latest best practices.

The DPF communication strategy is ranked amongst the best in the pensions industry and we continue to excel on the regional platform. In 2012 we did it again as we won yet another communication best practice award for "Stakeholder Communication Campaign Project" at the annual Institute of Retirement Funds Southern Africa (IRF) conference. In our entry we demonstrated the immense benefits that we have reaped from introducing Short Message Services (SMS) as another communication medium to improve the effectiveness of our communication strategy. We were able to show that the new SMS infrastructure has enabled us to achieve daily and immediate access to more than 75% of our deferred and pensioner members who are otherwise widely dispersed across the country, some in very remote areas. Over and above just being able to reach them, what won us the award is the highly interactive manner of communication that the new system has afforded us, including the feedback mechanisms and statistical analysis' derived from it that were able to help us identify new communication needs and eventually address them.

2012 Communication Activities

In terms of compliance to the approved 2012 Communication plan, we achieved an 83% implementation score which is more than satisfactory given that we had to appoint an Advertising and Communication Agency in the middle of the year, and some of the projects that required the services of the advertising agency were slightly delayed at the beginning of the year. However we regained our ground significantly and stabilized in the third quarter of 2012.

The following are the primary communication activities that were achieved in 2012;

Activity	Comments
External Newsletter (BOKAMOSO)	3 external newsletters were produced and distributed to all members during the year. Active members receive the newsletter electronically via email. The DPF has approximately 95% access to active members through an intranet that is shared between the Fund and its participating employers. Deferred and pensioner members receive the newsletter by surface mail.
Annual Report	An annual report for year 2011 was issued to members. Due to the bulky nature of this report, the Fund strives to keep costs to a minimum by printing and issuing an abridged version whilst the full version was made available to members through the Fund website.

Activity	Comments
Benefit Statements	Benefit statements for 2011 were issued during the year however in the latter part of the year due to some administrative delays which were eventually resolved.
Other Publications	The Fund issued a calendar for pensioners during the year. Our pensioners have come to rely on the calendar for reference to their monthly salary dates. Pensioners received monthly payslips for their salaries.
In-house member education workshop	The Fund toured the participating employers twice last year conducting presentations on various topics affecting pension savings. All employers each receive presentations during the first and third quarters of each year.
Education Fairs	The Fund conducted education fairs for the three constituencies; Gaborone, Jwaneng and Orapa which were successful. The fairs, which allow for face to face and one-on-one interaction between members and Fund employees, were hosted at the Debswana Corporate Centre, Orapa stadium in conjunction with Orapa Family Fun day, and at the Jwaneng Debswana Club.
Village Meetings with Pensioners	The Fund visited each of the 17 pensioner branches in the country twice in 2012. Although these meetings are independently organised by the Fund, the Badiri Ba Meepeo Pensioners Association, which the DPF helped establish in 2010, provides support in terms of coordination and attendance at these meetings. We work closely with branch chairpersons to ensure that our communication reaches our pensioners and deferred members. Each branch is visited during the second and fourth quarter of each year.
Courtesy visits to Tribal administrations	During the fourth quarter of our pensioners tours in 2012 as well as during death benefits investigations throughout the year, we paid courtesy calls to tribal administrations in acknowledgement of their role as facilitators for various affidavits required by the Funds, as hosts in some of the pensioner and family meetings that we held, and as arbitrators during difficult death benefits investigation cases. This is a deliberate public relations exercise through which we aim to maintain cordial relations with our business partners.
SMS Communication	Members were kept informed of developments at the Fund through the use of SMS. Educational messages were also sent on a monthly basis. Pensioners were the most regularly liaised with regard to progress on their monthly pensions salaries, especially in those occasional incidents where delays were anticipated either due to operational challenges or bank processing delays.
Website	The DPF Website was fully launched to members in 2012



In addition to the above, various other communication initiatives were implemented that were still on-going by the end of the year, including issuing of a tender for the development of an educational video which is expected to materialise in 2013. An internal communication program for DPF employees was also successfully implemented.

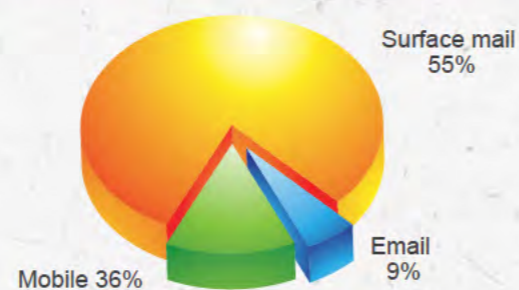
Communication Measurement

In line with our objectives to continually measure the effectiveness of our communication and identify areas for improvement, we implemented a member survey to all members for which the following were the outcomes

Communication & Member Education



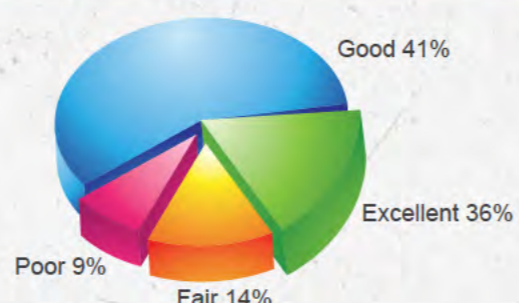
Preferred Mode of Communication



Preferred Language For Communication



Overall 2012 DPF Score Customer Satisfaction



With the above in mind we have had an exceedingly good year for our communication and shall continue to strive for better results for the good of our members.

Human Resources Report

Debswana Pension Fund prides itself with a dynamic team that has made the Fund what it is today. Through all the achievements and challenges of the Fund over time, our people have demonstrated resilience, passion and commitment to maintain the DPF as a model for excellence. In particular reference to recent developments, the Fund was able to overcome the operational challenges reported in the past couple of years largely through the hard work and dedication of its employees.

For the HR deliverables, 2012 was a year for embedding the newly established HR department, where Performance Management processes were highlighted along with maintaining motivation in an uncertain environment. Numerous policy documents were drafted and presented to the Board for approval. relating to employee benefits. The HR Committee also approved the Variable Pay policy in their April 2012 sitting which brought about more certainty and structure to performance based remuneration. An audit was conducted on overtime procedures and measures were put in place to reduce costs and improve the operational efficiency in this area.

During the year the Board of Trustees approved a tender for the Provision of Strategic Advisory Services in which the Fund's current structure and operating model would be examined. The possibility of organisational restructuring necessitated counselling and a focus on performance. The process is on-going and envisaged to be concluded at the end of 2013.

There were a number of team building activities for both staff and management where there was a focus on health and wellness. Employees voluntarily tested their vital signs and were issued with wellness reports and further encouraged to monitor their health for continued wellbeing. The department also made efforts to educate employees about financial wellness through workshops and a banking schemes were introduced to reduce the cost of debt on employees.

To maintain regular and open channels of communication between management and staff, the HR department implemented monthly Principal Executive Officer's Update meetings in which staff members were kept abreast of both strategic and operational developments within the Fund.

The Fund leadership maintains an open door policy for its staff members and encourages regular debate on all issues affecting employees.



Internships

In 2012 we intensified our efforts to support the Government Internship department by hiring more interns to learn and develop in a high paced demanding environment. Interns were placed in various divisions within the Fund. Efforts are made to align intern interests and qualification with the placement; this creates an ideal starting ground for anyone interested in the pension industry. Our interns get real hands on experience in their various areas ranging from processing to dealing with members; they themselves have also proven to be worthwhile investments.

Our aim as DPF is to mentor and up-skill all the graduates that we get, to a level where they can be readily absorbed into the Fund should the opportunity arise, or to a point where they are ready to join any workplace in a substantial position. DPF takes pride in participating in this valuable Government partnership and we strive to continuously improve our programme structure and content so our youthful graduates may easily assimilate into any company, contributing to the development of our country.

Financial Statements



“Current Interns for the Communication and Finance Divisions – Sylvia Modisane, Gosego Onneetse and Simba Rampart”

DEBSWANA PENSION FUND
ANNUAL FINANCIAL STATEMENTS
 31 December 2012

General Information

CHAIRMAN

Richard Vaka (Appointed 25 July 2012)
 Tabake Kobedi (Resigned 27 April 2012)

PRINCIPAL TRUSTEES

Victor Maxwell (Appointed 02 August 2012)
 Nchidzi Mmolawa (Resigned June 2012)
 Richard Moroka
 Tshepho Kgalaeng (Appointed 25 July 2012)
 Kaywa Namoshe (Resigned 20 June 2012)
 Emmanuel Kgaboetsile
 Gakenaope Gakologelwang

ALTERNATE TRUSTEES

Eunice Mpoloka
 Vuyisile Garekwe
 Petrous Montshioa
 Onneile Mmoloki (Appointed 25 July 2012)
 George Rantshilwana
 Christopher Mokgware (Resigned June 2012)

PRINCIPAL EXECUTIVE OFFICER

Gosego January

AUDITORS

Deloitte & Touche

REGISTERED OFFICE

Block D
 Plot 50361
 Carlton Centre
 Fairgrounds

BANKERS

Barclays Bank of Botswana Limited
 Standard Chartered Bank Botswana Limited

ACTUARIES

Towers Watson Actuaries and
 Consultants (Proprietary) Limited

DEBSWANA PENSION FUND
ANNUAL FINANCIAL STATEMENTS
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DEBSWANA PENSION FUND

TRUSTEES' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

31 December 2012

Trustees' responsibility for the annual financial statements

The members of the Board of Trustees are responsible for the preparation and fair presentation of the annual financial statements of Debswana Pension Fund ("the Fund"), comprising the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in members' funds and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards ("IFRS").

The members of the Board of Trustees are required by the Pension and Provident Funds Act (Cap 27:03) to maintain adequate accounting records and are responsible for the content and integrity of financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with IFRS. The independent auditors are engaged to express an independent opinion on the annual financial statements and their unmodified report is presented on page 45.

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

The annual financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. The members of the Board of Trustees' responsibilities also include maintaining adequate accounting records and an effective system of risk management.

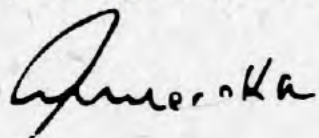
The members of the Board of Trustees acknowledge that they are ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong control environment. To enable the Board of Trustees to meet these responsibilities, the Board of Trustees sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Fund and all employees are required to maintain the highest ethical standards in ensuring the Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. While operating risk cannot be fully eliminated, the Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The members of the Board of Trustees have made an assessment of the Fund's ability to continue as a going concern and there is no reason to believe the Fund will not be a going concern in the year ahead.

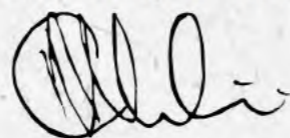
The members of the Board of Trustees are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Trustees' approval of the annual financial statements

The annual financial statements set out on pages 46 to 65 which have been prepared on the going concern basis, were approved by the members of the Board of Trustees on 06 June 2013 and were signed on its behalf by:



TRUSTEE



TRUSTEE

DEBSWANA PENSION FUND

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEBSWANA PENSION FUND

31 December 2012

Report on Financial Statements

We have audited the accompanying financial statements of Debswana Pension Fund, set out on pages 46 to 65, which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in members' funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Trustees' Responsibility for the Financial Statements

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

Auditors' Responsibility

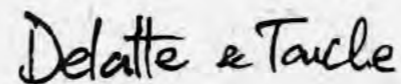
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

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

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

Opinion

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



Deloitte & Touche
 Certified Auditors
 Practicing member: CV Ramatlapeng (20020075)

Gaborone
 06 June 2013

DEBSWANA PENSION FUND
STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 P	2011 P
REVENUE		166,142,949	151,179,308
Contributions	1	168,474,800	152,484,591
Net transfers to other funds	2	(2,331,851)	(1,305,283)
Net investment revenue		99,639,872	104,558,582
Dividends receivable		36,083,356	31,947,849
Interest receivable		50,794,493	64,559,263
Net rental income		12,667,622	8,022,770
Other income		94,401	28,700
Total revenue		265,782,821	255,737,890
GAINS/(LOSSES) ON INVESTMENTS		450,489,327	268,897,486
(Losses)/gains on disposal of financial assets at fair value through profit or loss		(2,059,856)	2,583,935
Unrealised foreign exchange gains on financial assets		55,382,680	266,165,895
Unrealised fair value gains/(losses) on financial assets		392,768,821	(10,894,898)
Net unrealised gains on fair valuation of investment properties		4,397,682	7,539,240
Reversal of previous impairment losses on investments		-	3,503,314
EXPENDITURE		(148,708,964)	(269,490,013)
Benefits payable		(21,007,524)	(65,300,307)
Benefits on withdrawal and death		(77,149,409)	(67,389,293)
Pensioners' deaths benefits		(2,545,603)	(1,544,601)
Non-eligible membership expense		33,111	(33,111)
Lump sums on retirement		(48,039,539)	(135,222,701)
Fund expenses		(51,587,015)	(37,419,197)
Administration expenses	3	(21,391,826)	(14,419,703)
Onshore investment management fees		(10,182,061)	(9,855,197)
Offshore investment management fees		(17,070,805)	(9,574,016)
Depreciation of plant and equipment	8	(957,879)	(642,161)
Amortisation of intangible asset	9	(642,181)	(619,020)
Impairment of intangible asset	9	(1,342,263)	(2,309,100)
Surplus for the year		515,976,169	217,726,166
Other comprehensive income for the year		-	-
Total comprehensive income for the year		515,976,169	217,726,166

DEBSWANA PENSION FUND
STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	2012 P	2011 P
ASSETS			
Investments			
Investment in properties	5	201,346,117	117,166,816
Other financial assets	6	3,326,903,308	2,952,593,993
Cash and cash equivalents	7	382,015,150	424,170,412
Total investments		3,910,264,575	3,493,931,221
Other assets			
Plant and equipment	8	4,022,926	2,926,543
Intangible asset	9	1,342,261	3,095,100
Contributions and other receivables	10	37,095,879	25,459,383
Total other assets		42,461,066	31,481,026
Total assets		3,952,725,641	3,525,412,247
FUNDS, RESERVES AND LIABILITIES			
Funds and reserves			
Fund account		2,508,805,253	2,184,450,695
Pensioners' account		1,281,994,473	1,106,068,735
Contingency reserve		118,227,308	102,531,435
Total funds and reserves		3,909,027,034	3,393,050,865
Other liabilities			
Benefits payable	11	36,745,887	126,589,047
Other payables	12	6,952,720	5,772,335
Total other liabilities		43,698,607	132,361,382
Total funds, reserves and liabilities		3,952,725,641	3,525,412,247

DEBSWANA PENSION FUND
STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 P	2011 P
CASH FLOWS FROM OPERATING ACTIVITIES:			
Surplus for the year		515,976,169	217,726,166
Adjusted for:			
Depreciation of plant and equipment		957,879	642,161
Amortisation and impairment of intangible asset		1,984,444	2,928,120
Net investment revenue		(99,639,872)	(104,558,582)
Net gains on investments		(450,489,327)	(268,897,486)
Cash used in operations		(31,210,707)	(152,159,621)
Increase in contributions and other receivables		(11,636,496)	(12,435,319)
(Decrease)/increase in benefits payable		(89,843,160)	34,240,913
Increase in other payables		1,180,385	2,057,296
Net cash used in operating activities		(131,509,978)	(128,296,731)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net investment revenue		99,639,872	104,558,582
Payments for plant and equipment		(2,054,262)	(2,345,537)
Payments for intangible assets		(231,605)	(1,180,772)
Net (payments for)/proceeds from investments		(7,999,289)	6,003,155
Net cash generated from investing activities		89,354,716	107,035,428
Net decrease in cash and cash equivalents for the year		(42,155,262)	(21,261,303)
Cash and cash equivalents at the beginning of the year		424,170,412	445,431,715
Cash and cash equivalents at the end of the year		382,015,150	424,170,412

DEBSWANA PENSION FUND
STATEMENT OF CHANGES IN MEMBER FUNDS

for the year ended 31 December 2012

	Note	Fund account P	Pensioner's account P	Contingency reserve P	Total P
Balance at 1 January 2011		2,287,188,445	793,744,068	94,392,186	3,175,324,699
Total comprehensive income					
for the year		217,726,166	-	-	217,726,166
Transfers during the year		(323,392,036)	312,324,667	11,067,369	-
Transfer of expenses	16	2,928,120	-	(2,928,120)	-
Balance at 31 December 2011		2,184,450,695	1,106,068,735	102,531,435	3,393,050,865
Total comprehensive income for					
the year		515,976,169	-	-	515,976,169
Transfers during the year		(193,606,055)	175,925,738	17,680,317	-
Transfer of expenses	16	1,984,444	-	(1,984,444)	-
Balance at 31 December 2012		<u>2,508,805,253</u>	<u>1,281,994,473</u>	<u>118,227,308</u>	<u>3,909,027,034</u>



DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES

31 December 2012

Basis of preparation

The financial statements incorporate the following significant accounting policies, which have been consistently applied in all material respect and comply with International Financial Reporting Standards. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and investment property. The principal accounting policies are set out below.

Adoption of new and revised standards

In the current period, the Fund has adopted the following new and revised Standards and Interpretations of the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2012. The adoption of these standards has not resulted in changes to the Fund's accounting policies.

IFRS 1 - First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' 1 July 2011

IFRS 1 - First-time Adoption of International Financial Reporting Standards - Additional exemption for entities ceasing to suffer from severe hyperinflation 1 July 2011

IFRS 7 - Financial Instruments: Disclosures (transfers of financial assets) 1 July 2011

IAS 12 - Income Taxes - Limited scope amendment (recovery of underlying assets) 1 January 2012

Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were issued but not yet effective:

New/Revised International Financial Reporting Standards	Effective date
IFRS 1- Financial Instruments: Disclosures (Government loans)	1 January 2015
IFRS 1- Financial Instruments: Disclosures (annual improvements)	1 January 2013
IFRS 7 - Financial Instruments: Disclosures (offsetting of assets and liabilities)	1 January 2013
IFRS 7 - Financial Instruments: Disclosures (initial application of IFRS 9)	1 January 2015
IFRS 9 - Financial Instruments : Classification and measurement	1 January 2015
IFRS 9 - Financial Instruments : Financial liabilities and derecognition	1 January 2015
IFRS 9 - Financial Instruments : Disclosure (amendment to transition)	1 January 2015
IFRS 10 - Financial Instruments : Disclosure (amendment to transition)	1 January 2013
IFRS 11- Financial Instruments : Disclosure (amendment to transition)	1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 - Fair Value Measurement	1 January 2013
IFRIC 20 - Financial Instrument :Stripping costs in production phase of a surface mine	1 January 2013
IAS 1 - Presentation of Financial Statements (Comprehensive income)	1 July 2012
IAS 16- Fixed Assets - Property, Plant and Equipment amendment	1 January 2013
IAS 19 - Employee Benefits: Post employment and Termination Benefits projects	1 January 2013
IAS 28 - Investments in Associates and Joint Ventures	1 January 2013
IAS 27 -Separate Financial Statements	1 January 2013
IAS 32 -Financial Instrument: Amendment (Offsetting of assets and liabilities)	1 January 2014

The Fund will evaluate the effect of all the new standards, amendments and interpretations that are in issue for adoption in the applicable periods.

DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

Benefits Payable

Benefits payable include all valid notified benefit claims and are recognised on an accruals basis.

Pensioners' Account

This account comprises the equivalent of net assets of the Fund attributable to the Fund's pensioners. This reserve will be used to cover the Fund's liability, which is the actuarial value of the current pensions in payment and allows for future increases in pensions. Regular actuarial valuations are carried out to determine the Fund's liability to the pensioners. The last actuarial valuation was conducted at 31 December 2012.

Contingency Reserve

This reserve represents funds set aside in consultation with the Fund's actuaries to protect the Fund in future against contingencies such as expense overruns, data error as a result of operating a life stage model and unanticipated pensioner expenses. The reserve was initially set at 3% of the total net assets and is reviewed from time to time.

Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following useful lives are used in the calculation of depreciation:

Office equipment	4-5 years
Motor vehicles	4 years
Furniture and fittings	10 years

Intangible Asset

Internally-generated intangible assets

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale; - the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

Intangible Asset (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets in respect of software development costs are amortised over a period of 4 years.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Financial Instruments

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Financial assets are classified into the following categories: financial assets as 'at fair value through profit or loss' (FVTPL), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;

DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

Financial Instruments (continued)

- it is part of an identified portfolio of financial instruments that the Fund manages together and has a recent actual pattern of short-term profit taking;

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which 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 grouping is provided internally on that basis.

The Fund's investment securities are designated as at fair value through profit or loss as they are managed on a fair value basis in line with the Fund's documented investment principles.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit are earned on the financial asset. Fair value is determined in the manner described below:

- Listed securities are valued at the last market value ruling at the statement of financial position date.
- Managed fund investments are stated at the unit prices quoted by the investment managers as at year-end.
- Unlisted securities are valued having regard to the latest dealings, professional valuation, asset values and other appropriate financial information.

Loans and receivables

Contributions receivables and other receivables that have a fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of the amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

FINANCIAL INSTRUMENTS (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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities comprise benefits payable and other payables.

Benefits payable and other accounts payables are stated at their amortised cost.

REVENUE RECOGNITION

Contributions

Contribution revenue is recognised on an accruals basis.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Withholding tax payable at 7.5% on dividends received from Botswana equities is netted off against dividend income.

Interest revenue from Government bonds, promissory notes, term deposits, call accounts and other fixed income securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Fund as a lessor

Amounts due from lessees under finance leases are recorded as a receivable at the amount of the Fund's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Fund as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

DEBSWANA PENSION FUND

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

FOREIGN CURRENCIES

The financial statements are presented in the currency of the primary economic environment in which the Fund operates (its functional currency), the Botswana Pula.

Transactions in currencies other than Botswana Pula are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date.

Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency; and

- exchange differences on transactions entered into in order to hedge certain foreign currency risks.

RELATED PARTY TRANSACTIONS

Related parties are defined as those parties:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(b) that are members of the key management personnel of the entity or its parent including close members of the family.

All dealings with related parties are transacted on an arm's length basis and accordingly included in profit or loss for the year.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Impairment of financial assets

Determining whether a financial asset is impaired requires an estimation of the future cash flows that the Fund is expected to receive from either disposing or holding onto the financial asset in the form of dividends or interest.

DEBSWANA PENSION FUND
SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

31 December 2012

Useful lives of plant and equipment and intangible assets

As described in the accounting policy for plant and equipment, the Fund reviews the estimated useful lives of plant and equipment and intangible assets at the end of each annual reporting period. During the year, the Trustees determined that the useful lives of the plant and equipment did not change since the prior year.

Valuation of investment property

Determining the fair value of investment property requires an estimation of the value in use of the property. The value in use is calculated by professional valuers who estimate the future cash flows in form of rental income expected to arise from renting out the property and a suitable discount rate in order to calculate present value. The Trustees utilise independent valuers to minimise the level of estimation uncertainty.

DEBSWANA PENSION FUND
NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2012

1 CONTRIBUTIONS

Contributions receivable are 20% of members' pensionable earnings for all participating employers except for Morupule Colliery Limited. Morupule Colliery Limited contributes 15% of members' pensionable earnings whilst members contribute 5% of pensionable earnings.

2 NET TRANSFERS TO OTHER FUNDS

	2012 P	2011 P
Transfers in	2,396,026	1,200,598
Transfers out	(4,727,877)	(2,505,881)
Net transfers	<u>(2,331,851)</u>	<u>(1,305,283)</u>

3 ADMINISTRATION EXPENSES

Actuarial fees	320,264	310,794
Auditors' remuneration:		
External audit fees - current year	531,202	425,500
- prior year under-provision	163,404	95,579
Internal audit fees	683,444	343,184
Bank charges	304,985	252,037
Communications expenses	531,077	675,803
Fidelity and other insurance	136,459	117,619
Legal and professional fees	1,024,783	193,489
License and maintenance fees	1,753,794	1,356,355
Regulator's Non-Banking Financial Institutions Regulatory Authority (NBFIRA) fees	317,353	-
Other expenses	2,738,772	1,200,855
Staff costs	11,230,131	7,786,069
Stationary	93,625	69,384
Travel and entertainment	1,042,652	1,083,296
Unitisation fees	519,881	509,739
	<u>21,391,826</u>	<u>14,419,703</u>

4 TAXATION

The Fund is an approved scheme under the Income Tax Act, (Chapter 52:01) and is therefore not subject to taxation.

5 INVESTMENT IN PROPERTIES

Investment properties at fair value:		
Freehold and leasehold land and buildings	145,140,000	63,490,000
Leasehold land and buildings held in partnerships	48,275,214	46,084,777
	<u>193,415,214</u>	<u>109,574,777</u>
Balance at beginning of the year	109,574,777	99,530,809
Net gain from fair value adjustments	4,397,682	7,539,240
Additions	79,442,755	2,504,728
Balance at end of the year	<u>193,415,214</u>	<u>109,574,777</u>
Loans and shares in property investment companies:		
Loans advanced to property investment companies	3,680,959	3,742,027
Investment in shares of property investment company	3,503,314	3,503,314
	<u>7,184,273</u>	<u>7,245,341</u>
Total investment in properties	<u>200,599,487</u>	<u>116,820,118</u>
Deferred lease rental	746,630	346,698
Total	<u>201,346,117</u>	<u>117,166,816</u>

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

5 INVESTMENT IN PROPERTIES (Continued)

Investment properties were revalued at 31 December 2012 by MG Properties International Botswana, Kwena Property Services and Wragg (Proprietary) Limited, firms of independent chartered valuers on an open market value basis.

6 OTHER FINANCIAL ASSETS

Designated as at fair value through profit and loss (FVTPL)

	2012 P	2011 P
Equity investments		
- Onshore	812,023,111	676,254,014
- Dual listed	5,746,247	6,112,125
	<u>817,769,358</u>	<u>682,366,139</u>
Fixed income securities		
Bonds		
- Onshore	369,996,723	377,263,774
- Offshore unitised	430,474,087	483,584,296
	<u>800,470,810</u>	<u>860,848,070</u>
Promissory notes	-	430,165
	<u>800,470,810</u>	<u>861,278,235</u>
Offshore equity unitised funds	1,686,615,668	1,391,434,078
	<u>3,304,855,836</u>	<u>2,935,078,452</u>
Provision for impairment	(3,866,724)	(3,866,724)
Dual listed equities	(1,122,944)	(1,122,944)
Bonds onshore	(4,989,668)	(4,989,668)
Long-term private equity loan	20,330,611	-
Short-term loan	6,706,529	22,505,209
	<u>27,037,140</u>	<u>22,505,209</u>
Net carrying amount	<u>3,326,903,308</u>	<u>2,952,593,993</u>

7 CASH AND CASH EQUIVALENTS

Short-term deposits	200,414,183	317,889,339
Bank balances	181,600,967	106,281,073
	<u>382,015,150</u>	<u>424,170,412</u>

8 PLANT AND EQUIPMENT

	Motor Vehicles P	Office Equipment P	Furniture and Fittings P	Total P
2012				
Cost				
Balance at 1 January 2012	745,059	3,041,231	756,065	4,542,355
Additions	-	150,612	1,903,650	2,054,262
Balance at 31 December 2012	<u>745,059</u>	<u>3,191,843</u>	<u>2,659,715</u>	<u>6,596,617</u>
Accumulated depreciation				
Balance at 1 January 2012	412,506	822,059	381,247	1,615,812
Charge for the year	155,462	651,484	150,933	957,879
Balance at 31 December 2012	<u>567,968</u>	<u>1,473,543</u>	<u>532,180</u>	<u>2,573,691</u>
Carrying amount	<u>177,091</u>	<u>1,718,300</u>	<u>2,127,535</u>	<u>4,022,926</u>

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

8 PLANT AND EQUIPMENT (Continued)

	Motor Vehicles P	Office Equipment P	Furniture and Fittings P	Total P
2012				
Cost				
Balance at 1 January 2011	197,140	1,508,174	491,504	2,196,818
Additions	547,919	1,533,057	264,561	2,345,537
Balance at 31 December 2011	<u>745,059</u>	<u>3,041,231</u>	<u>756,065</u>	<u>4,542,355</u>
Accumulated depreciation				
Balance at 1 January 2011	151,961	408,328	261,199	821,488
Charge for the year	108,382	413,731	120,048	642,161
Adjustments	152,163	-	-	152,163
Balance at 31 December 2011	<u>412,506</u>	<u>822,059</u>	<u>381,247</u>	<u>1,615,812</u>
Carrying amount	<u>332,553</u>	<u>2,219,172</u>	<u>374,818</u>	<u>2,926,543</u>

9 INTANGIBLE ASSET

	2012 P	2011 P
Cost		
Balance at beginning of year	6,190,201	5,009,429
Additions during the year	231,605	1,180,772
Balance at end of year	<u>6,421,806</u>	<u>6,190,201</u>
Amortisation and impairment		
Amortisation and impairment at beginning of year	(3,095,101)	(166,981)
Amortisation charge for the year	(642,181)	(619,020)
Impairment during the year	(1,342,263)	(2,309,100)
Balance at end of year	<u>(5,079,545)</u>	<u>(3,095,101)</u>
Carrying amount	<u>1,342,261</u>	<u>3,095,100</u>

The intangible asset comprises of an internally developed application system, the Benchmark Benefits Administration System.

10 CONTRIBUTIONS AND OTHER RECEIVABLES

Transfers receivable	58,416	330,044
Adhoc contributions clearing account	-	655,366
Advance benefit payments	3,559,333	3,738,614
Provision for 25% deferred benefits	5,342,741	-
Benefit payments clearing account	128,497	-
Benefit payments tax receivables	4,347,492	-
20% death advance claim	121,817	-
Pensioner deaths overpayment	332,396	-
Interest receivable	668,197	2,051,392
Input VAT control account	9,879,713	-
Dividends receivable	-	887,046
Property rentals receivable	2,591,108	756,594
Property partnership current accounts	9,124,422	7,683,886
Other receivables	941,747	9,356,441
	<u>37,095,879</u>	<u>25,459,383</u>

Contributions and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Contributions are received in accordance with the Rules of the Fund. No interest is charged on outstanding receivables.

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

11 BENEFITS PAYABLE

	2012 P	2011 P
Retirement	10,920,433	67,756,668
Withdrawal	5,269,714	34,856,291
Death	8,985,973	4,636,296
Pensioner deaths	1,893,226	602,693
Un-cleared contributions	1,615,313	1,174,827
Redirected funds (Deaths and Voids)	3,458,857	7,521,192
Monthly pensions	535,066	2,475,625
Unclaimed benefits	2,391,719	1,663,241
Tax payable on benefits	1,335,042	5,278,154
Contributions for ineligible members	340,544	624,060
	<u>36,745,887</u>	<u>126,589,047</u>

12 OTHER PAYABLES

Rental deposits	609,522	381,453
Rental received in advance	165,390	127,902
Withholding tax	-	6,746
Administration fees payable	4,500,512	3,920,033
Provisions and accruals	1,677,296	1,336,201
	<u>6,952,720</u>	<u>5,772,335</u>

13 ACTUARIAL VALUATION

The financial statements summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future. In accordance with the Rules of the Fund, the actuarial position of the Fund, which does take account of such liabilities, is examined and reported upon by the actuaries of the Fund.

An actuarial valuation was carried out as at 31 December 2012. The valuation shows that the pension reserves of the Fund, as reflected in the statement of changes in funds on page 47 amounting to P1 281 994 473, (2011:P1 106 068 735) adequately cover the pensioners' liabilities at that date amounting to P1 205 802 000 (2011:P1 099 047 000), without taking into account future pension increases.

14 FINANCIAL RISK MANAGEMENT

Risk is inherent in the Fund's management of investments which are held in various financial instruments. This is managed through a process of on-going identification, measurement and monitoring that is subject to an extensive framework of risk limits and other controls. The process of risk management is critical to the Fund's on-going operations with the day to day management of financial instruments being conducted by investment managers. The Fund's objectives, policies and procedures for managing the risk exposure and the methods used to measure the risks have remained consistent with the prior year.

The Fund has established investment guidelines. These guidelines set out its investment objectives, a benchmark portfolio and approved investments. The investment guidelines also set out minimum performance measurements of returns on its investments, which are managed by a number of investment managers. Strict measures are observed for appointing investment managers. The active and deferred members are placed into the age-banded life stage model, which provides a range of investment portfolios with specified investment strategies.

Risk Management Governance Structure
Board of Trustees

The Board of Trustees is responsible for the Fund's overall risk management approach and for approving investment guidelines, the risk strategies and principles. The Fund's Investment Committee reviews the risk profile from time to time, and the overall risk profile and investment strategies are reviewed and approved by the Board of Trustees.

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

14 FINANCIAL RISK MANAGEMENT (Continued)
Risk Management Governance Structure (continued)
Investment Committee

The Investment Committee comprising members of the Board of Trustees and management meets regularly to review developments in the international financial and capital markets. Where necessary the Investment Committee makes decisions on the Fund's investments in terms of composition and other relevant factors. The Investment Committee has outsourced the investment managers' performance assessment and review to the Fund's actuaries, who report regularly to the Board of Trustees.

Audit and Finance Committee

The Audit and Finance Committee comprising members of the Board of Trustees and management meets regularly and reviews the risk management process, the risk assurance plan, and approve the annual audit coverage for both internal and external audit.

Benefits Review Committee

The Benefits Review Committee comprising of the Board of Trustees and management meets regularly and reviews the distribution and disposal of death benefits. The Benefits Review Committee is also responsible for the Fund's communication strategy and its implementation.

Types of Risk Exposure

The Fund is exposed to various types of risk exposures, namely market risk, comprising currency risk, interest rate risk, equity price risk, credit risk and liquidity risk.

Currency risk:

The Fund is exposed to currency risk mainly through its investments and term deposits denominated in foreign currencies. The Fund's total exposure to currency risk through its investments and term deposits denominated in United States Dollars as at 31 December 2012 amounted to P2 156 203 520 (2011: P1 881 130 499).

Interest rate risk:

Interest rate risk is the possible loss in the value of a fixed income asset resulting from an unexpected and adverse movement in interest rates and consequent change in price. Interest rate risk is measured by modified duration, which measures the sensitivity of the price of a bond to changes in interest rates expressed in years.

Financial instruments that are sensitive to interest rate risk are bank balances and cash, interest bearing securities and term deposits. Interest rates earned on financial instruments compare favourably with those currently available in the market. The net exposure to interest rate risk as at 31 December 2012 amounted to P376 703 252, (2011:P400 199 148) being investments in onshore bonds, promissory notes and short-term loans and P430 474 087 (2011:P383 584 296) being investments in offshore bonds, and P382 015 150 (2011:P424 170 412) being short term deposits and cash and cash equivalents as disclosed in notes 6 and 7.

Equity price risk:

Equity price risk is the risk that the value of equities decreases as a result of changes in the equity prices and diminution of value of individual stocks. The investment guidelines stipulates the allowable holding levels. The net exposure to equity price risk as at 31 December 2012 amounted to P817 769 356 (2011:P682 366 139) for local equities and P1 706 946 279 (2011:P1 391 434 078) for offshore equities and offshore unitised funds as disclosed in note 6.

Fair values of financial instruments
Fair values of financial instruments carried at amortised cost

The Board of Trustees considers that the carrying amounts of assets and liabilities recognised in the financial statements at amortised cost approximates their fair values.

Valuation techniques and assumptions applied for the purpose of measuring fair value

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

14 FINANCIAL RISK MANAGEMENT (Continued)
Fair values of financial instruments (continued)

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed equities and bonds). The fair values of other financial assets and financial liabilities are determinable in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Fair value measurements are those derived from valuation techniques that includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012 Total	Level 1	Level 2	Level 3
	P	P	P	P
Financial assets at fair value through profit or loss				
Onshore listed equity investments	812,023,111	812,023,111	-	-
Dual listed equity investments	5,746,247	5,746,247	-	-
Onshore listed bonds	369,996,723	369,996,723	-	-
Offshore bonds unitised funds	430,474,087	-	430,474,087	-
Offshore equity unitised funds	1,686,615,668	-	1,686,615,668	-
	<u>3,304,855,836</u>	<u>1,187,766,081</u>	<u>2,117,089,755</u>	<u>-</u>
Total				

There were no transfers between Level 1 and 2 during this period.

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

14 FINANCIAL RISK MANAGEMENT (Continued)
Fair values of financial instruments (continued)
Liquidity risk:

Ultimate responsibility for the liquidity risk management rests with the Board of Trustees, which has built an appropriate liquidity risk management framework for the management of the Fund's short, medium and long term funding and liquidity management requirements. The Fund manages liquidity by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Based on the nature of the Fund's payables, an analysis of undiscounted cash flows of financial liabilities is not relevant. Substantially, the Fund's benefits and other accounts payable are due for settlement within three months after the year end.

Market risk sensitivity analysis

The set of assumptions used for each of the risk factors hereunder are not forecasts, but merely "what if" scenarios and the likely impact on the current portfolio, based on selected changes in risk variables over a one year horizon.

The table below gives an indication of the risk sensitivities of the portfolio to various risk parameters. Assuming that the probability of the beneficial change in the risk variables are as likely to happen as an adverse change, both potential increase and decrease are shown for the indicated scenarios.

Risk Variable	Adverse market change				Beneficial market change	
	Scenario	Effect on statement of comprehensive income		Scenario	Effect on statement of comprehensive income	
		2012 P	2011 P		2012 P	2011 P
Currency Risk	Strengthening of the Pula by	(21,562,035)	(18,811,305)	Weakening of the Pula by 1%	21,562,035	18,811,305
Global Equity Risk	Decline in global equity prices by 1%	(17,069,462)	(13,975,462)	Increase in global equity prices by 1%	17,069,462	13,975,462
Local Equity Risk	Decline in local equity prices by 1%	(8,177,693)	(6,762,540)	Increase in local equity prices by 1%	8,177,693	6,762,540
Interest Rate Risk	Decline in interest yield by 1%	11,891,925	12,854,391	Increase in interest yield by 1%	(11,891,925)	(12,854,391)

Credit risk:

This is the risk that would arise if an entity that the Fund conducts business with, is unable to meet its financial obligation or in an event of an adverse credit event or default.

Management has a strict policy with regards to the Fund's exposure to credit risk, and where there is exposure, this is monitored on an on-going basis. Reputable financial institutions are used for cash handling purposes.

The Fund allocates funds to a number of investment managers, which have diversified mandates and the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

There are no investments with any counterparty exceeding 5% of the total investment portfolio.

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

14 FINANCIAL RISK MANAGEMENT (Continued)
Concentration of credit risk

Counterparty (investment manager)	Investment type	2012	2011
		P	P
Investec Asset Management Limited	Government bonds	53,100,872	38,556,434
Investec Asset Management Limited	Corporate bonds	83,306,481	75,767,680
Investec Asset Management Limited	Parastatals bonds	64,092,222	63,843,292
Investec Asset Management Limited	Corporate promissory notes	-	430,165
BIFM Asset Management (Proprietary) Limited	Government bonds	67,862,159	90,350,660
BIFM Asset Management (Proprietary) Limited	Corporate bonds	24,468,928	23,537,245
BIFM Asset Management (Proprietary) Limited	Parastatals bonds	18,717,878	18,435,304
Allan Gray Botswana	Government bonds	10,825,677	11,013,615
Allan Gray Botswana	Corporate bonds	17,307,308	24,863,350
Allan Gray Botswana	Parastatals bonds	30,315,198	30,896,195
Pimco Funds: Global Investors Series plc.	Unitised offshore bonds	430,474,087	483,584,295
Total (per note 6)		800,470,810	861,278,235

Bank balances and fixed deposits

Counterparty (investment manager)	Investment type	2012	2011
		P	P
First National of Bank Botswana Limited	Fixed deposits	31,481,027	124,274,745
Barclays Bank of Botswana Limited	Fixed deposits	-	66,574,176
Barclays Bank of Botswana Limited	Bank balances	66,296,116	92,844,124
Standard Chartered Bank Botswana Limited	Bank balances	15,304,851	13,437,537
Stanbic Bank Botswana	Fixed deposits	109,604,822	39,173,363
Bank of Botswana	Treasury bills	56,608,802	85,147,851
Other Institutions	Fixed Deposits	2,719,532	2,718,616
Total		382,015,150	424,170,412

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the basis of recognition of income and expenses), for each class of financial asset and financial liability are disclosed under significant accounting policies on pages 11, 12 and 13 of the financial statements.

Categories of financial instruments

	2012	2011
	P	P
Financial assets		
Cash and cash equivalents	382,015,150	424,170,412
Designated as at fair value through profit and loss (FVTPL)	3,299,956,168	2,952,593,993
Investments carried at Amortised cost	27,037,140	-
Loans and receivables	23,623,965	25,459,383
Financial liabilities		
Other financial liabilities at amortised cost	43,698,607	132,361,382

DEBSWANA PENSION FUND

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

31 December 2012

15 RELATED PARTY TRANSACTIONS AND BALANCES

	2012	2011
	P	P
Contributions receivable from participating employers	168,474,800	152,484,591
Remuneration of key management personnel: Key management personnel comprises the Principal Executive Officer Gross emoluments of the key management personnel are: Short term benefits	1,354,608	1,092,495
Internal audit fees charged by Debswana Head Office	683,444	343,184

16 CONTINGENCY RESERVE

A decision was made by the Board of Trustees to allocate operating expenses amounting to P1 984 444, (2011:P2 928 120) relating to the Benefits Administration System to the Contingency Reserve. The reason for allocating the expenses to Contingency Reserve was to avoid overburdening members who retired in 2012 with the once-off cost which would have negatively impacted on their fund credits. The Contingency Reserve is utilised for such purposes.

17 DESCRIPTION OF THE FUND

The Fund was established on 1 October 1984 as a defined contribution pension fund.

The main purpose of the Fund is to provide for the payment of pensions to qualifying members on retirement. A secondary objective of the Fund is to provide benefits to nominated beneficiaries or widows and dependents of the qualifying members as the case may be.

The participating employers are: Debswana Diamond Company (Proprietary) Limited, Morupule Coal Mine Limited, De Beers Holdings Botswana (Proprietary) Limited, Diamond Trading Company Botswana (Proprietary) Limited, Anglo Coal (Proprietary) Limited, De Beers Global Sightholder Sales (Proprietary) Limited and Debswana Pension Fund.

18 MEMBERSHIP STATISTICS

	2012	2011
Number of members: Active	5150	4,191
Deferred	2563	2,658
Pensioners	3089	2,737

19 COMMITMENTS

	2012	2011
	P	P
Amounts committed in terms of operating leases over the Fund's office premises in Gaborone:		
Due within two to one year	923,448	847,200
Due within two to five years	4,617,240	4,236,000
	<u>5,540,688</u>	<u>5,083,200</u>

20 FIDELITY INSURANCE COVER

The Trustees are of the opinion that the Fund has adequate fidelity insurance cover.

21 EVENTS AFTER THE REPORTING PERIOD

No events have occurred between the end of the reporting period and the date of approval of the financial statements, which would materially affect the financial statements.

APPENDICES

Statement of Investment Principles

1. Purpose of the Fund

- a. The Debswana Pension Fund exists primarily to provide members with reasonable and competitive retirement benefits.

2. In-service members

- a. A member with an average career progression in terms of salary increases and 35 years of service should ideally retire with a pension of 70% to 75% of his/her pensionable salary at retirement.
- b. If investment conditions so allow, being able to provide benefits in excess of the above. Given the defined contribution nature of the Fund, the above benefits are only a target and are not guaranteed.

3. Pensioners

- a. Pensioners should receive increases over the long-term that match inflation. Such increases however, are not guaranteed and are subject to affordability.

4. Investment philosophy

- a. The Trustees have adopted a long-term horizon in formulating the Fund's investment strategy. This means that the overall success of the strategy will only be measured over a period of at least 5 years, with the planned measurement period being 10 years.
- b. The primary risk of the Fund is inflation risk. This is the risk that the Fund does not earn a sufficient return to be able to provide reasonable retirement benefits and pension increases in line with inflation.
- c. A secondary risk for in-service members close to retirement is that the markets fall sharply just before they retire. Generally members that retire will secure a with profit life annuity from the Fund. The terms of this pension are set at retirement and so the retiring member should not be placed in the position that he/she would need to "lock-in" large negative returns at the time he/she retires.
- d. Consistent with the Fund's purpose and risk, the primary investment philosophy of the Fund is to provide a return that is:
 - i. Well in excess of that provided by the capital markets in the event that general market conditions are weak (and deliver a low return relative to inflation);
 - ii. Slightly ahead of capital markets in the event that market conditions are in the normal range (and where the investment returns relative to inflation are likely to be reasonable)

- iii. Behind the returns delivered by the capital markets in mature bull markets (i.e. very high returns relative to inflation). In this environment the Fund would be prepared to sacrifice some return to protect capital to a greater extent should the markets subsequently correct. The achievement of such a return signature should allow the Fund to meet its objective of providing reasonable and competitive benefits over as wide a range of investment scenarios as possible.
- iv. This philosophy is varied for in-service members as they approach retirement, where the primary investment philosophy is the protection of capital and to reduce the chance of negative investment returns over an investment horizon of 12 months.
- v. The philosophy gives primacy to retirement benefits.
- vi. The Fund's investments must be conducted in a manner that is honest, transparent and ethical.

5. Investment objectives

a. Investment objective: In-service members

- i. The primary investment objective of the Market Portfolio is to provide a net real return of 5.0% p.a. over any rolling 8-year period, with a less than 10% chance of a net real return less than 0% over the same 8-year measurement period.
- ii. Net real return means the difference between the actual investment return achieved and inflation after deducting investment manager fee, tax and related costs such as custody services.
- iii. The investment objective of the Conservative Portfolio is to earn a net real return of 3.0% p.a. (after deducting tax and manager fees) over any rolling 5-year period with a less than 5% chance of a net nominal return of less than 0% over any 12-month period.
- iv. These performance objectives are consistent with the stated purpose of the Fund.

b. Risk constraint: In-service members

- i. The Market Portfolio targets a standard deviation of absolute returns of 13% p.a.
- ii. The Conservative portfolio targets a standard deviation of absolute return of 8.0% p.a.

c. Trustees default life stage model: In-service members

- i. The Trustees have implemented a default life stage model for in-service members with effect from 1 August 2004.

- iii. Based on an assumed retirement age of 60, the member's retirement savings will be invested in the Market Portfolio up to age 53. (This portfolio concentrates on managing the member's inflation risk.) The member's future retirement savings contributions will be invested in the Conservative Portfolio from the end of the month in which the member turns 53.
- iv. From the end of the month in which the member turns 57 the member will be fully invested in the Conservative Portfolio.
- v. (This portfolio concentrates on managing the member's final payment risk.) Starting at the end of the month in which the member turns 53, the member's accumulated retirement savings will be transitioned in five more or less equal annual tranches from the Market Portfolio to the Conservative Portfolio. This is reflected in the following chart:



d. Investment objective: Pensioners

- i. A separate pool of assets will be maintained in respect of the pensioners with effect from 1 August 2004. The pensioner liabilities have been valued at an interest rate of 4% p.a. This means that the pensioner assets need to earn a net real return of 4% p.a. (after management fees, tax and other costs) in order to grant pension increases that match inflation.
- ii. At the same time the Fund needs to earn a nominal return of at least 4% p.a. in order to meet the current pension payments with no future increases (the so-called contractual liability).
- iii. The investment objective for the pensioners is to earn a net real return of 4% p.a. over any rolling 10-year period

e. Risk constraint: Pensioners

- i. The pensioner portfolio aims for a standard deviation of absolute returns of 9.5% p.a.
- ii. Less than 1% chance of a net nominal return of less than 4% p.a. over the same 10-year measurement period.
- iii. Less than 7.5% chance of net real return of less than 0% p.a. over a 10-year measurement period.

f. Investment objective: Contingency Reserve Account

- i. The Trustees have decided to maintain a Contingency Reserve Account in the Fund to meet unexpected contingencies.
- ii. The Trustees have set the required level of the Contingency Reserve Account at 3% of the Fund's assets.
- iii. The main contingencies relate to the Pensioner Portfolio since the In-service assets and liabilities are matched. The Contingency Reserve will follow the same strategic asset allocation as the Pensioner Portfolio.

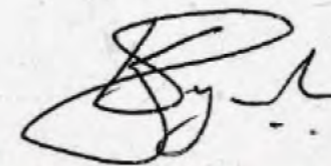
Statement By Consulting Actuaries

We certify that:

- The Fund remains in a sound financial condition at 31 December 2012 as the value of the assets within each account exceeds the liabilities of the respective account. This position should be reviewed at the next valuation date.
- In our view the current provision for future pension increases is sufficient under reasonable investment market conditions to support future pension increases in line with inflation.
- As a defined contribution arrangement, the contributions required in terms of the Fund Rules meet the future service obligations in respect of the active members.
- The strategic asset allocation represents a reasonable long-term investment strategy given the nature of the Fund's liabilities. In particular, the asset allocations of the various investment channels are reasonable given the time horizon of each channel.
- The matching of the Fund's assets against the liabilities is, in our opinion, adequate.

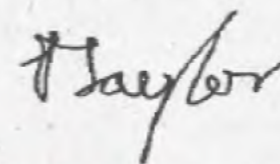
We recommend that:

- The various items of profit or loss reflected in the valuation report relating to the Active & Deferred Investment Account and the Pensioner Account be investigated by the Fund's administrator, where so indicated.
- The adjustments made to the assets and liabilities in the valuation report be investigated and, where not already done so, be confirmed by the Fund's administrator;
- The Trustees continue to monitor the Fund's expenses and to ensure that the expenses of the Fund are managed appropriately;
- The Trustees assess the various contingency reserve accounts allowable in terms of PFR1, as deemed appropriate, establish the appropriate contingency reserve accounts in the Fund's Rules and determine their initial allocations and review the levels on a regular basis.



KM Lynch, B.Sc., F.A.S.S.A.

Fellow of the Actuarial Society of South Africa
 In my capacity as the valuator of the Fund and
 as an employee of Towers Watson



LM Taylor, B.Sc.

In my capacity as an employee Towers Watson
 Our primary regulator is the Actuarial Society of
 South Africa
 Date: May 2013

Communication Policy Statement

a. Primary Objectives

- To ensure that the Debswana Pension Fund provisions and requirements are communicated accurately to all stakeholders;
- To identify and meet all regulatory requirements regarding provision of information by the DPF to members
- To appropriately promote membership of the Fund to employees of participating employers;
- To communicate clearly to all stakeholders their own responsibility for communications and information flows in relation to the DPF and work with them to improve the efficiency of communications as needed;
- To ensure that all stakeholder communication needs are adequately catered for.

b. Secondary Objectives

- In addition to the membership, the delivery of the Fund mandate also involves communication with a number of other interested parties. Our communication policy provides an overview of how we communicate with all these stakeholders and how we will measure the effectiveness of our communication all stakeholders. The DPF communications policy is designed to complement the Fund's compliance and risk management strategies hence it is geared towards the following principles:

a. Professionalism

To demonstrate the Fund's professionalism by ensuring a thorough knowledge by DPF staff of the rules, regulations, products and services

b. Understanding and accessibility

To respond promptly to stakeholders' needs for information and contact by ensuring that needs are properly understood and providing effective access for all.

c. Pro-active planning and development

To anticipate and respond to stakeholder needs through development of a rolling communication strategy informed by continuous communication research, planning and measurement.

d. Customization of communication messages taking cognizance of stakeholder differences and needs.

To provide targeted communication based on the varying needs of groups of stakeholders: members, beneficiaries, employers, service providers etc.

e. Responsiveness

To develop strategies for crisis communication and ensure that appropriate responses for all events as well as ongoing mitigation of Fund reputational risks.

c. Our Audiences

The DPF communicates with various stakeholders. For the purposes of our communication policy, communication with the following audiences is considered;

- Active members
- Union representatives
- Deferred members
- Board of Trustees
- Pensioner members
- DPF staff
- Prospective members
- Media
- Employer representatives/Liaisons
- Regulators
- Senior leadership teams/managers of employer companies
- Business Partners/service providers

d. How We Communicate

1. General stakeholder communication

- The role of stakeholder communication is overseen by the Communications department with department providing strategic direction on how communication should be handled by other departments for each of the stakeholders they deal directly with. The department primarily manages member education as a core deliverable over and above the traditional PR, marketing and communication functions whilst providing the necessary resources and support to other department. On an annual basis the department produces a stakeholder communication plan as part of its overall communication strategy for implementation.

2. Branding

- All literature and other communications are produced in compliance with the established DPF Brand standards. In addition, DPF employees are expected, in the process of communicating with stakeholders, to demonstrate reasonable behavior and etiquette that is reflective of the values and principles espoused in the DPF philosophy, i.e. trust, integrity, value orientation, member focus, quality focus, innovation etc.

- To further enhance positive behavior and regard for members in the process of our communication, we implement an annual internal communication plan that seeks to educate employees about the business of the Fund, give them insight on industry issues as well as teach them about basic communication principles and practices that would empower them to handle member communications better such as presentation skills etc.

3. Adaptability and accessibility

- The DPF recognizes that individual members may have specific needs in relation to the format, language or mediums in which communication is provided hence membership profiling is an important aspect of our communication research.

4. Communication Mediums

The DPF generally use face-to-face and paper based communication as the two main means of communicating, for example by sending various publications and letters to members and stakeholders as well as in-house presentations.

However, these are complemented by the use of electronic means such as the Debswana intranet site, (which is particularly convenient as a shared IT platform between the family of companies), the DPF website, SMS Communication. The DPF also accept communications from stakeholders electronically, mainly by email and telephone. The communication mediums that the DPF uses include the following;

a. The Internet

Fund literature and general information about the DPF are published on the DPF website www.dpf.co.bw The website contains a range of information about the Fund as well as secure member pages for each category of members namely Active, Deferred, pensioners. These pages are designed and customized in this manner in order to ensure that the information needs of the particular member category are adequately addressed. There are secure areas for other major stakeholders namely HR/Employers and Trustees. Each member area also has discussion forums which are meant to promote dialogue between the Fund and its members as well as amongst themselves about issues surrounding their pension benefits. The site also has links to other organisations relevant to members of the Pension Fund e.g. employer websites, asset managers, regulators, etc.

The DPF also currently has a dedicated intranet site on the Debswana Electronic Data Management System (EDMS) where all of its publications, policies and other documents are stored for ease of reference by active members sharing the same platform in the group. The site is regularly maintained and updated with new information as it develops.

b. Abridged Annual Report

An abridged annual report is produced and sent to members by postage to deferred members and pensioners.

For active members it is published on the intranet and a site link emailed to them. The contents of the report focus mainly on updating members on the financial position of the Fund as well as other developments that impact on the business of the DPF.

c. Quarterly Newsletter

The DPF publishes a quarterly newsletter that aims to communicate and educate. The current format includes announcements, feature stories on member experiences, educational articles on member benefits and financial education amongst others. The newsletter is distributed electronically via intranet to active members and by surface mail to deferred and pensioner members. The newsletter features both English and Setswana versions in one copy.

d. Annual Benefit Statements

Annual Benefit Statements are sent to active and deferred members of the Fund deferred September of every year following the financial year. The issuing of the statement is preceded by the approval of the audited annual financial statements of the Fund by the DPF Board of Trustees, hence the benefit statement is sent with the abridged annual report. The benefit statements are also used to communicate other information such reminding members about beneficiary nomination, educating them about benefit options and related rules and regulation.

e. Fund Literature

The Communications department review information needs of members on an ongoing basis and develops appropriate educational literature for distribution to members in various forums. The literature is made available to employers and scheme members and members themselves. Copies of this literature are accessible via the Fund's web-site www.dpf.co.bw and the intranet site.

f. Pensioner Pay Slips & Certificates of Existence

The DPF operations department issues monthly payment advice slip for retirement annuities. These can be used to communicate specific messages and for other purposes such as requesting a prompt notification of change of address. The pay advice is also used to communicate details of annual pension increases. Details of Annual Pension paid and the tax deducted are notified to Pensioners and the Botswana Unified Revenue Services (BURS)

Certificates of existence forms are also mailed to pensioners annually requiring them to confirm their existence by way of certifying them at approved authorities and returning them to the Fund. This is done to ensure that the Fund only pay pension salaries to valid member bank accounts and not deceased members.

g. General Correspondence

The Fund utilises both surface mail and e-mail to receive and send correspondence.

h. Telephone Help Lines & SMS Communication System

Members can access the Fund by telephone help line to deal with any queries relating to their pension and this is widely publicized in Fund literature. A toll free line is also available. The Fund has installed SMS communication system with which notices and educational messages are sent out on a regular basis. The system also allows members to enquire or respond back to the DPF. Both the Fund Communication and Operations department are tasked with managing the communication received and sent in this medium.

i. Member Welfare Offices

For each of the membership constituencies of the Fund, i.e. Jwaneng, Orapa and Gaborone, there are member welfare office established as contact centers for members and their representatives, including employers. The offices are within the vicinity of the various mines where active members are employed and at the same time accessible to deferred and pensioner members living in and the surrounding concentration areas.

j. Pensioner Meetings Tour

The Fund has identified 17 towns and villages across Botswana where the majority of our deferred and pensioner members reside. On a bi-annual basis, the Fund conducts tours and hosts meetings in each of the villages to educate, give updates to members on Fund developments, performance etc. as well as receive feedback on member issues and concerns.

k. In-house Presentations

Also on a bi-annual basis the Fund arranges in-house meetings at each of the employer companies to address active members and educate, announce developments, changes etc.

l. Induction Meetings

The Fund liaises with employer representatives periodically to hold pension fund induction meetings for their newly recruited employees.

Currently the Fund is dependent on the employers to provide a calendar for such meetings and the frequency of the meetings is dependent upon the employers' recruitment calendar.

m. Induction Packs

The Communication department receives on a monthly basis the address list of new member engagements on the pension administration system. Induction packs are prepared and mailed to the new members. Included in the pack is all the available communication material about the Fund, its products and services.

n. Fairs

The DPF hosts edutainment fairs annually at the three membership constituencies in Jwaneng, Orapa and Gaborone. These fairs are aimed at being interactive and include the participation of DPF business partners who educate members on investment and savings options available to them as well as enlighten them about the dynamics of the pensions industry. Employers also occasionally initiate their own business fairs in which they always invite the DPF to participate.

o. Pre-Retirement Seminars

Annually, the Fund conducts educational workshops for members who are close to retirement, targeting those aged between 45 and 60 in consideration of the early retirement age of 50 and normal retirement age of 60. The workshops are designed to educate members on the necessary requirements to retire from the Fund, their own personal financial plan for retirement and the importance of taking up additional voluntary contribution scheme to improve their net replacement ratios. The Fund engages the services of professional financial advisors to counsel the near-retiring members on personal finance.

p. HR Training Workshops

Annually, the Fund Operations department conducts training workshops for HR business partners at employer venues. The purpose of these workshops is to educate each other about our systems and processes, create synergy between both Fund and employer administrations, understand the gaps and assist each other improve the quality of administration of pension benefits which both parties provide for the members. In the process, relationship building is also important for the ongoing management of member records.

q. Trade Union Briefings

As part of our tours to address active members, we include in our schedules meetings with union

representatives to brief them about developments and/or issues at the Fund that they need to be regularly informed of. The Unions are also able on a regular basis to make enquiries and initiate meetings with the Fund to gain further understanding on any issues of concern.

r. Branding material & Promotional Merchandise

The Fund engages with members through educational competitions and raffles through the newsletter and during business fairs either organized by the employers or DPF. To facilitate this, the Fund procures branding material and promotional gifts for free distribution to members and other stakeholders. The objective of this initiative is to build membership loyalty and stronger relationships.

Frequency of Communication to Members

Communication Medium	Media	Frequency of issue	Method of distribution	Audience group (active, deferred, pensioner or all)
Fund literature	Paper based, on intranet site and website	At joining, major changes and upon request	Post to home address/via employers/email	All
Newsletters	Paper based, on intranet site and website	Quarterly	Post to home address/via employers/email	All
Pension Fund Annual Report	Paper based, on intranet site and website	Annually	Post to home address/via employers/email	All
Benefit Statements	Paper based	Annually	Post to home address	Actives and deferred only
Projection Statements	Paper based	Every 3 years	Post to home address/via employers for active members	Active members only
Pay Slips	Paper based	Monthly	Post to home address	Pensioners
Certificates of Existence	Paper based	Annually	Post to home address	Pensioners
Website and Intranet site	Electronic	Continually available	Advertised on all communications	Intranet for Active and website for all
'Member Welfare Offices	Face to face	Continually available	N/A	All
Face to face education sessions including in-hous presentations, meetings, pre-retirement workshops and training workshops	Face to face	Twice a Year for meetings and presentations and annually for workshops	On request	All
Telephone, email and fax	Electronic	Continually available	On request	All
Short message system (SMS)	Electronic	Ongoing and incident based	Mobile	All
Induction packs	Paper based	On joining the Fund	Post to home address	Active members
Fairs	Face to face	Annually	Event-based	All

Timeliness

We will measure against the following target delivery timescales

Communication of	Audience	Statutory delivery period	Target delivery period
Induction Packs	New members of the DPF	Unspecified	Within six weeks of joining the DPF
Benefit Statements as at 31 December	Active and Deferred members	Unspecified	30 September
Telephone calls	All	Unspecified	95% of phone calls to be answered within 3 rings
Issue of retirement benefits (lump sums and pensions)	Active and deferred members retiring	Unspecified	95% of retirement benefits to be paid within two month of retirement
Issue of deferred benefits (lump sums)	Leavers	Unspecified	Within two months of resignation/retranchment
Transfers in /out	Joiners/active members	Unspecified	Within two weeks of request
Issue of forms, i.e. expression of wish	Active/deferred members	N/A	Within five working days
Changes to scheme rules Annual Pension Fund Report and	Active/deferred and pensioner members, as required	Unspecified	Within three months of change coming into effect
Accounts/Annual Report	All	Unspecified	Within two months from approval of Audited Financial Statements by the Board of Trustees

Quality/Measurement

We will measure the effectiveness of our communication by

Audience	Method	To consider	Measurement method
All member types	Paper and electronic based surveys annually	Operational efficiency, accessibility and service quality Frequency and quality of communication relevance of our communication material clarity of messages	Questionnaires are sent to members both electronically and by mail.
Business partners /service provider	Electronic and face to face surveys	All services and identify improvement areas/new services	Questionnaires and interviews
Employers	Electronic, telephone and Face to face surveys	Same as all of the above	Questionnaires and interviews

Administration Strategy Statement

1. Introduction

Debswana Pension Fund is responsible for the administration of its member records in-house. The service is carried out by Debswana Pension Fund Operations Division on behalf of participating employers.

The Pensions Administration Strategy statement outlines the policies and performance standards towards providing a cost-effective, inclusive and high quality pensions administration service.

The strategy recognises that both the Participating Employers and the Debswana Pension Fund have a joint role to play in delivering an efficient service and that any overall improvements can only be achieved in partnership. The Strategy recognises the possible administrative challenges that the Fund and Employers could face and contains proposals to streamline processes and improve the services to members and Employers.

2. Key Objectives

The key objectives of our administration Strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the NBFIRA and Debswana Pension Fund Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other stakeholders
- Accurate records are maintained for the purpose of calculating pensions entitlements, ensuring all information and data is communicated accurately, timely and in a secure manner
- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement.
- Potential risks to the Fund and Employers, in particular compliance risk, leading to financial penalties arising from the administration, are identified, mitigated and monitored

- Effective governance arrangements are established for the monitoring and improvement of the Administration Strategy
- Administrative services are delivered in a cost effective and efficient manner utilising appropriate technology and best practice, in order to maintain costs at below or average levels

3. Achieving The Objectives

There are five key elements necessary to achieving the Fund's administrative objectives:

3.1. Administrator's Communications Policy that:

- ensures members have accessible and timely information on all aspects of their pension's benefits and informs and enables decisions in respect of their pensions.
- enables Employers to make effective decisions in the management of risks and liabilities as well as facilitates engagement in the wider pensions debate
- Investment in skills and knowledge development both within the Fund and as appropriate with Employers to ensure not only efficient administration but active engagement in the issues facing the DPF in the future
- the effective use of technology for accessing, storing and disseminating information between the Fund and its Employers in a seamless and secure way
- set performance standards which support the effective working of the Fund and Employers towards a higher standard of service and continuous improvement.

3.2. Training

The Fund has always endeavoured to keep stakeholders informed of new developments providing training courses and workshops for Employers and the Fund's staff alike.

It is widely anticipated that there will be regulatory changes to the NBFIRA act in the coming years which will have wide-ranging implications for members, Employers and not least the administration of the Scheme and as and when such changes are discussed the administrator will engage with all stakeholders to keep them in the loop. With this in mind, it is important that both Employers and the Fund ensure that their staff has the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations and administrative processes.

Notwithstanding future changes, there is an existing need to improve the quality of member records and the administrative processes by improving the quality of information received from Employers.

a. To achieve this:

- the Fund will work with Employers' Human Resources, Payroll and other staff to identify relevant skills and knowledge gaps and develop an appropriate training programme
- Organise workshops and forums for Employers to debate new issues as they emerge.
- Continue to invest in specific technical training and professional development of Fund staff

The training strategy will ensure that both the Fund and Employers have a common understanding of their obligations, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide training for Employers' relevant staff to build up and maintain a level of professional expertise which together with the Employer's own systems and processes will enable Employers to deliver information required by the Fund to efficiently administer the Debswana Pension Scheme.

3.3. Embracing Technology

The Fund administration is now fully automated and self-administering since July 2010. The Fund is currently optimising the efficiency of its administration system and has recently begun the process of upgrading its accounting Software to enable integration and seamless processing between both the accounting and administration systems. This will help us move to a real time environment. This latter move will realise the Fund savings and improve reporting standards and provision of data output.

Such developments are a natural progression in an era when there is growing demand for accurate data driven by valuation requirements, annual statements reporting, member data and participating employer requests.

The Fund has developed a range of electronic forms for data transmission which are integrated fully with the Fund's administration system in an effort of reducing manual intervention and this process has been completed and embedded in the fund's processes.

Finally the Fund will endeavour to move all financial transactions to electronic means eliminating the need to produce cheques well before the intended deadline. This process will be outlined in detail in the Finance strategy.

• We will achieve this by:

- working closely with both our Employers and software providers through structured contracts and Service Level Agreements to agree required inputs and timescales for delivery
- ensuring all transactional communication channels are secure and managed in compliance with Pension Regulatory guidelines
- the Fund adopting good practice guidelines and complying with industry standards for Information Security Management

a. Electronic Data Interface ("EDI") Programme

Employers are encouraged to make best use of technology in capturing and transmitting data to the Fund on member changes (leavers, joiners and other changes) electronically and currently a significant number do so and have realised the benefit from cost-savings through a reduction in manual intervention.

3.4. Performance Evaluation

The development of an Administration Strategy carries with it a legislative requirement to set performance standards and publish both the targets and achievement against those targets. The purpose of doing so is to secure continuous improvement of the administration function. The detailed Strategy outlines the performance measures and proposed targets which will be monitored and results reported to the DPF Benefits and Communication Committee; this will be scrutinised by the Committee and action taken where appropriate.

Information is also published in the Fund Annual Report.

New Service Level Agreements ("SLAs") will be agreed with Employers to set and monitor performance at the local level and will include all the targets for both the Fund and the Employer. The aggregated performance will be reported to the DPF Benefits Communication Committee on a quarterly basis.

Risk Governance Statement

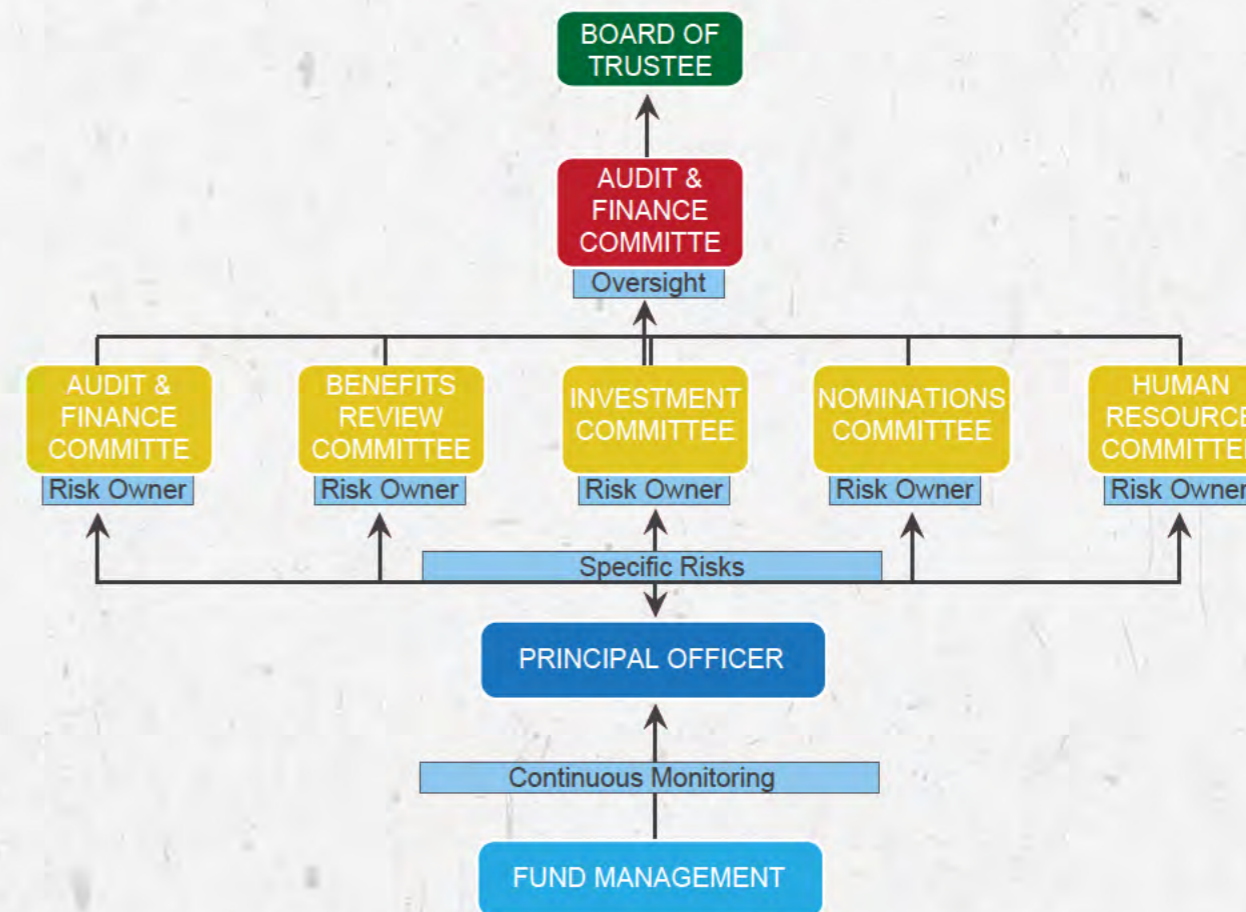
The board is responsible for the governance of risk of the Fund. The board's responsibility for risk governance is documented in a risk management strategy, policy and plan. The Board has established a policy and plan for a system and process of risk management. In line with King III the board comments in the integrated report on the effectiveness of the system and process of risk management. The board's responsibility for risk governance is expressed in the Board Charter. The Trustees are inducted and an on-going training programmes of the board incorporates risk governance.

Risk Management Structure

Managing risks is the responsibility of the Board of Trustees, Sub-Committees, the Fund Management and Staff at all levels. In order to embed the risk management function in the way that the Fund does its business, there is need for risk management structures as follows;

- Board of Trustees
- Finance, Audit & Risk Committee
- Other Sub-Committees
- Fund Management
- Risk Management Function
- Risk Champion

The Fund Risk Management structure of the Fund is depicted as follows;



The Finance and Audit Committee reviews the risk log on a quarterly basis in which all key financial and non-financial risks affecting the business are recorded. New risks, if and when identified, are added to the risk log while others fall away over a period of time. A systematic process is used to priorities the risks for ongoing monitoring and management. The Audit and Finance Committee provides the board with recommendations at quarterly board meetings. Current risks include, but are not limited to, the regulatory and legal framework, currency and market risk, safety and environment, skills availability and systems development. The board has delegated to the management the responsibility to design, implement and monitor the risk management plan.

