

Abridged Audited Group Financial Results

For the Year Ended 31 December 2013



Group Consolidated Income Statement

	Year to 31 December 2013 P'000	Year to 31 31 December 2012 P'000	% Change
Revenue			
Net premiums	1,886,445	1,949,585	(3%)
Gross premiums- recurring	932,803	908,800	
- single	959,681	1,061,613	
Premiums ceded to reinsurers	(6,039)	(20,828)	
Other income	3,036,277	1,162,607	161%
Fee income	98,039	74,700	31%
Investment income	595,111	628,915	
Profit on sale of subsidiary	-	6,075	
Net gains on financial assets held at fair value through profit or loss and investment properties	2,343,127	452,917	
Total revenue	4,922,722	3,112,192	58%
Net insurance and investment contract benefits and claims	(4,000,278)	(2,314,707)	73%
Gross benefits and claims paid	(1,065,158)	(914,906)	
Claims ceded to reinsurers	5,421	10,730	
Change in liabilities under investment contracts	(1,719,987)	(383,646)	
Change in policyholder liabilities under insurance contracts	(1,220,554)	(1,026,885)	
Expenses	(532,252)	(508,637)	5%
Selling expenses	(243,491)	(219,165)	
Administration expenses	(288,761)	(289,471)	
Profit before share of profit of associates and joint ventures	390,192	288,849	35%
Share of profit of associates and joint ventures net of tax	189,202	196,482	(4%)
Profit before tax	579,394	485,331	19%
Tax	(84,621)	(90,936)	
Current tax	(78,610)	(85,835)	
Deferred tax	(6,011)	(5,420)	
Other taxes	-	319	
Profit for the year	494,773	394,395	25%
Profit attributable to:			
- Equity holders of the parent	492,500	390,918	26%
- Non-controlling interests	2,273	3,477	
	494,773	394,395	25%
Earnings per share (thebe) (attributable to ordinary equity holders of the parent)			
- Basic	183	146	25%
- Diluted	181	145	25%
Number of shares for calculating earnings per share			
Number of shares in issue	281,070,652	281,070,652	
Less shares in share scheme and treasury shares	(11,291,300)	(12,960,247)	
Shares used for calculating basic earnings per share	269,779,352	268,110,405	
Weighted number of dilutive options	2,140,098	1,782,906	
Shares used for calculating diluted earnings per share	271,919,450	269,893,311	

Group Consolidated Statement of Comprehensive Income

	Year to 31 December 2013 P'000	Year to 31 31 December 2012 P'000
Profit for the year	494,773	394,395
Other comprehensive income		
Exchange differences on translating foreign operations	21,944	10,718
Total comprehensive income for the year	516,717	405,113
Total comprehensive income attributable to:		
- Equity holders of the parent	514,444	401,636
- Non-controlling interests	2,273	3,477
	516,717	405,113

Group Consolidated Statement of Financial Position

	At 31 December 2013 P'000	At 31 31 December 2012 P'000
ASSETS		
Property and equipment	20,828	10,911
Intangible assets	150,898	154,001
Investment property	300,681	495,798
Investments in associates and joint ventures	1,345,905	1,268,707
Long-term reinsurance assets	6,123	9,041
Financial assets at fair value through profit or loss	11,386,601	12,517,189
- Bonds (Government, public authority, listed and unlisted corporates)	5,049,888	5,475,367
- Equity investments (Local and foreign)	5,711,195	6,786,531
- Policy loan and other loan advances	482,258	138,235
- Money market instruments	143,260	117,056
Deferred tax asset	2,344	190
Short-term insurance receivables	23,063	9,736
Trade and other receivables	215,894	175,344
Tax receivable	26,973	15,412
Cash, deposits and similar securities	580,674	760,539
Total assets	14,059,984	15,416,868
EQUITY AND LIABILITIES		
Equity attributable to equity holders of parent		
Stated capital	130,821	130,821
Non distributable reserves	745,694	574,914
Retained earnings	1,528,886	1,239,226
Total equity attributable to equity holders of parent	2,405,401	1,944,961
Non-controlling interests	34,912	33,651
Total equity	2,440,313	1,978,612
Liabilities		
Policyholder liabilities under:		
- Insurance contracts	11,123,238	12,966,214
- Investment contracts	6,803,582	5,592,072
	4,319,656	7,374,142
Deferred tax liability	23,789	17,939
Short-term insurance payables and provisions	34,425	9,437
Tax payable	1,222	5,257
Related party balances	3,041	4,157
Trade and other payables	433,956	435,252
Total equity and liabilities	14,059,984	15,416,868

Group Consolidated Statement of Changes in Equity

	Stated capital P'000	Non distributable reserves P'000	Retained earnings P'000	Total Equity attributable to equity holders of parent P'000	Non- controlling interests P'000	Total Equity P'000
Year to 31 December 2012						
Opening balances	130,821	468,891	1,091,083	1,690,795	36,050	1,726,845
Profit for the year	-	-	390,918	390,918	3,477	394,395
FCTR movement	-	10,718	(10,718)	-	-	-
Dividend paid	-	-	(157,400)	(157,400)	-	(157,400)
Transfers from retained earnings to non-distributable reserves	-	51,708	(51,708)	-	-	-
Other movements in reserves	-	43,597	(22,949)	20,648	(5,876)	14,772
Balances at 31 December 2012	130,821	574,914	1,239,226	1,944,961	33,651	1,978,612
Year to 31 December 2013						
Opening balances	130,821	574,914	1,239,226	1,944,961	33,651	1,978,612
Profit for the year	-	-	492,500	492,500	2,273	494,773
FCTR movement	-	21,944	(21,944)	-	-	-
Dividend paid	-	-	(98,375)	(98,375)	(1,012)	(99,387)
Transfers from retained earnings to non-distributable reserves	-	93,185	(93,185)	-	-	-
Other movements in reserves	-	55,651	10,664	66,315	-	66,315
Balances at 31 December 2013	130,821	745,694	1,528,886	2,405,401	34,912	2,440,313

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For the Year Ended 31 December 2013



Group Consolidated Statement of Cash Flows

	Year to 31 December 2013 P'000	Year to 31 December 2012 P'000
Cash flows from operating activities	(4,254,919)	1,955,231
Interest received	453,687	329,167
Tax paid	(94,206)	(106,695)
Dividends paid	(90,997)	(145,595)
Cash flows from/(utilised in) investing activities	3,806,570	(2,520,169)
Net decrease in cash and cash equivalents	(179,865)	(488,061)
Cash and cash equivalents at the beginning of the year	760,539	1,248,600
Cash and cash equivalents at the end of the year	580,674	760,539
Represented by:		
Cash deposits and similar securities	119,937	116,593
Funds on deposit	460,737	643,946
	580,674	760,539

Group Embedded Value

The embedded value represents an estimate of the value of the Group, excluding the value attributable to minority interests and goodwill attributable to future new business. The embedded value comprises:

- * the value of the shareholders' net assets; and
- * the value of the in-force business adjusted for the cost of required capital to support this business.

The value of the in-force is the present value of future after-tax profits arising from business in force at the calculation date.

	Year to 31 December 2013 P'000	Year to 31 December 2012 P'000 Restated
Embedded value results		
Shareholders' net assets after fair value adjustments	2,489,393	2,164,327
Shareholders' net assets, excluding goodwill	2,313,929	1,829,874
Fair value adjustments	175,464	334,453
Value of in-force	770,768	536,541
Value before cost of capital	957,625	708,461
Fair value adjustments	(58,178)	(63,027)
Cost of capital	(128,679)	(108,893)
Embedded value at end of year	3,260,161	2,700,868
Required Capital (Life Business)	303,747	316,400
Required Capital Cover (Life Business)	7.7	5.8
Embedded value per share (Pula)	11.94	10.07
Embedded value earnings		
Embedded value at end of the year	3,260,161	2,700,868
Embedded value at beginning of the year	2,700,868	2,409,662
Change in embedded value	559,293	291,206
Dividends paid	98,375	157,400
Embedded value earnings	657,668	448,606
Return on embedded value	24%	19%
These earnings can be analysed as follows:		
Expected return on life business in force	74,697	80,200
Value of new business	109,711	99,307
Value at point of sale	101,558	90,198
Expected return to end of year	8,153	9,109
Operating experience variances	112,015	7,599
Mortality/Morbidity	59,911	58,696
Persistency	(5,543)	(23,974)
Expenses	(14,115)	(6,867)
Other	71,762	(20,256)
Operating assumption changes	29,129	18,140
Mortality/morbidity	33,780	6,679
Persistency	(3,470)	45,791
Expenses	(5,528)	(14,011)
Other	4,347	(20,319)
Embedded value earnings from operations	325,552	205,246
Investment variances	96,997	17,761
Economic assumption changes	27,330	10,517
Inflation	6,090	10,517
Risk discount rate	21,240	-

Group Embedded Value (continued)

	Year to 31 December 2013 P'000	Year to 31 December 2012 P'000 Restated
Embedded value earnings from covered business	449,879	233,524
Return on shareholders assets	312,714	224,388
Investment Returns	129,854	57,687
Net profit non-life operations	182,860	166,701
Change in shareholders' fund adjustments	(104,925)	(9,306)
Changes in treasury share adjustments	49,215	-
Movement in fair value of incentive scheme shares	19,093	1,390
Movement in present value of holding company expenses	4,849	(8,895)
Movement in other net worth adjustments	(178,082)	(1,801)
Embedded value earnings	657,668	448,606
a) Value of new business		
Value of new business at calculation date	109,711	99,307
Value before cost of capital	121,885	107,752
Recurring premium	44,897	31,782
Single premium	76,988	75,970
Cost of capital	(20,327)	(17,554)
Expected return to end of year	8,153	9,109
b) Fair value adjustments		
Staff share scheme	4,180	(14,913)
Non-life operations write-up to fair value	108,819	248,761
Group holding expenses	(58,178)	(63,027)
Reversal of cross holding adjustment	62,465	100,605
Total	117,286	271,426
Consisting of:		
Net Asset Value adjustments	175,464	334,453
Value of In Force adjustments	(58,178)	(63,027)
c) Assumptions		
The main assumptions used are as follows:		
1. Economic assumptions	% p.a	% p.a
Risk discount rate	11.50	12.50
Overall investment return (before taxation)	9.09	10.09
Expense inflation rate	5.00	6.00

2. Other Assumptions
The assumptions for future mortality, persistency and premium escalation were based on recent experience adjusted for anticipated future trends.

Restatement of Embedded Value
The embedded value as at 31 December 2012 has been restated as the fair value on certain assets was carried at cost in the embedded value. This resulted in an additional P124 million in fair value. The embedded value has accordingly been restated from the original value of P2.5 billion to the revised one of P2.7 billion. This change does not affect the income statement and the statement of financial position.

Abridged Audited Group Financial Results for the Year Ended 31 December 2013.

The Directors hereby present the results of Botswana Insurance Holdings Limited (BIHL) for the year ended 31 December 2013.

Key features

Revenue

Net premium income decreased by 3% to P 1.9 billion
Fee income increased by 31% to P98.0 million
Value of new business increased by 10% to P109.7 million

Assets under Management

Assets under management increased by 25% to P27.1 billion

Earnings

Operating profit increased by 19% to P 277.3 million
Core earnings increased by 15% to P310 million
Profit attributable to equity holders increased by 26% to P492.5 million

Solvency

Business is well capitalized, required capital for the life business covered 7.7 times (December 2012: 5.8 times)

Embedded Value

Embedded value increased by 21% to P3.3 billion

Dividends

P98.4 million paid as dividends during the year (2012: P157.4 million)
Final normal dividend proposed of 35 thebe per share (gross of tax)

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For the Year Ended 31 December 2013



Economic Environment

The World Bank forecasts global growth of 3.2 percent in 2014 up from 2.4 percent in 2013. Policy makers in major developed economies have generally put growth ahead of austerity to revive the global economy. The US is expected to spur the global growth as fiscal consolidation eases and monetary conditions improve, supportive of growth. Though some emerging economies such as Brazil, India, Turkey, and South Africa, have been increasing their key rate, we are of the view that pro-growth and accommodative monetary policy will continue worldwide in 2014.

In the domestic market a year on year GDP growth rate of 5.9 percent was achieved up to September 2013, which compares favourable against the 2012 full year growth rate of 4.2%. The trends in key components of the domestic demand, largely trends in Government expenditure and personal incomes, will be modest and have a modest influence on inflationary pressures. On the favourable side, domestic inflation closed the year 2013 at 4.1 percent, comfortably within the central bank target range of 3 - 6 percent. Domestic inflation outlook looks favourable on account of less imported inflation on the back of a supporting exchange rate regime. The Bank rate was reduced four times, for a total of 200 basis points during 2013, closing the year at 7.5 percent. Bond yields have fallen quite significantly during the year, with the longest dated Government bond, the 18-year BW011, closing the year at 6.25 percent. We believe that we are close to the end of yield compression in the domestic market. Similarly to 2013, conditions in 2014 are expected to improve albeit at a moderate tempo.

Accounting Policies and Presentation

The accounting policies adopted for the period comply in all material respects with International Financial Reporting Standards (IFRS) and are presented in the manner required by the Botswana Insurance Industry Act (Cap 46:01) and the Companies Act of Botswana (Companies Act, 2003). These policies are consistent with those applied for the year ended 31 December 2012 except for the changes as a result of the adoption of the following new standards which were effective 01 January 2013:

- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

The new standards did not have an impact on the financial performance or the financial position of the Group.

Financial Overview

	Year to 31 December 2013 P'000	Year to 31 December 2012 P'000	% Change
Operating profit	277,273	232,764	19%
Investment income on shareholders' assets	32,807	37,957	(14%)
Core Earnings	310,080	270,721	15%
Profit on sale of subsidiary	-	6,075	
Share of profit of associates and joint ventures net of tax	189,202	196,482	(4%)
Investment losses gains on shareholders assets	80,112	12,054	565%
Profit before tax	579,394	485,331	19%
Tax	84,621	90,936	
Profit after tax	494,773	394,395	25%
Minority shareholders' interest	(2,273)	(3,477)	
Profit attributable to ordinary shareholders	492,500	390,918	26%

	Year to 31 December 2013 P'000	Year to 31 December 2012 P'000
Operating profit by business		
Life	275,698	239,542
Asset management	43,926	36,504
General insurance	(11,709)	(2,447)
Group expenses	(17,041)	(29,932)
Other	(13,601)	(10,903)
Total	277,273	232,764

Operating profit for the life business increased by 15% due to good operational earnings from all the business lines. The asset management results has been positively affected by the growth in assets under management due to the good investment returns and clients net contributions during the year. The short term insurance results has been adversely affected by the change in the core system which affected the premium collection in the Legal Guard portfolio. Group expenses have been well maintained in line with the continued strategy to manage expenses while certain one-off expenses were not incurred in the current financial year. Other expenses relate to the Unit Trusts business and charity trust that experienced increased activities.

Investment income which comprises dividend income and interest income decreased by 14% due to the prevailing low interest rate environment. Investment surpluses increased significantly following changes to key investment strategies that resulted in very satisfactory capital gains. This income line remains susceptible to market volatilities.

Embedded Value

The Group's embedded value has increased by 21% to P3.3 billion. The embedded value was positively affected by good operating earnings, especially the life business, and good investment returns which are in line with global market performance for the reporting period. The embedded value allows for P98.4 million dividends paid during the period.

Value of New Life Business

The value of new life business grew by 10% to P109.7 million off the back of significant growth in individual life volumes and changes in mortality assumptions. The changing economic environment resulted in a change in the risk discount rate which impacted positively on the VNB.

Overview of Operations

Life Insurance Business

2013 saw an improvement in the local and global economy, our results are consistent with this recovery. Individual Life new business premium income showed a robust and healthy growth, and increased by 26% over prior year. The annuity line underperformed compared to prior year due to fewer than expected retirees, this is expected in a low interest environment as annuity benefits tend to be generally depressed in such a period. Due to the underperformance of the annuity line, Net Premium Income at P1.88 billion is 3% lower than the prior year's P1.95 billion.

Operating profit increased by 15% from P239.5 million in prior year to P275.7 million. All business lines contributed positively to this result. Unit costs (cost per policy) have reduced by 15% from the prior year. Management continues to implement interventions to bring these costs down further.

The roll out of the LifeRewards Card to our branch network was completed in September, we are pleased that our clients have fully embraced the card as alternative payment method. The trend for the card acquisition increases every month. As at 31 December 7,123 cards with a total value of P26.9 million had been issued. Turnaround time for claims payments has reduced significantly as a result.

We continue to make significant strides in the rollout of our strategic imperatives. Despite the uncertain economic outlook and growing direct competition, we remain optimistic about our future prospects and aim to take full advantage of the opportunities in the economy.

Asset Management Business

The Bifm group has generated an excellent set of results for the full year 2013. This is as a result of growth in Assets under Management which is linked to the investment team's enhanced focus on delivering investment performance for our clients, the recurrent inflows from existing clients, as well as the acquisition of new mandates. Further contributing to the results is the significant improvement in business operations from companies within the Bifm group.

Compared to full year December 2012, profit before tax and minorities grew by 27% and Assets under management grew by 25% to P27.1 billion, including assets of P3.8 billion, managed by our sister company in Zambia.

2013 was a year in which we continued to deepen relationships with our clients and stakeholders, ensuring retention of mandates. We extended our offerings to the retail market through our Units Trusts suite which has enjoyed tremendous uptake by retail clients.

Our client education initiatives were held successfully with the Trustee Training taking place in August and our International partners gracing our shores in November for our Offshore Manager Conference.

Short Term Insurance Business

BIHL Sure! has adopted a conservative approach to building its business. The short term insurance market remains very softly priced which militate against rapid growth. Penetration into the commercial lines market remains slower than expected resulting in a loss for the year. Measures to address this situation are being put in place and we are confident that it will come to fruition in due course.

Our Legal Guard Division, which has been key to the business was affected by technical difficulties occasioned primarily by a system change in 2013. Critically, premium collections were negatively impacted upon and whilst remedial measures are being administered, we continue to work tirelessly to reclaim lost ground. Legal Guard products remain a quality product offering in a tightly contested market segment and we remain confident in our ability to increase market share.

Existing partnerships delivered steadily-increasing results for BIHL Sure! during 2013, we will focus on increased efforts to further expand these avenues.

Capital Management and Solvency

The Group still remains in a very strong position with respect to capital requirements.

Looking Ahead

We will continue to build on our achievements and focus on our key twin strategies of growth and profitability. However, uncertainty in the global markets is expected to continue to affect the results. We would like to thank all our Clients, Brokers, Agents and other Stakeholders for the on-going partnership and support and look forward to serving them in the future.

Changes in Directorships

Appointments

Mr. Andre Roux was appointed as a director on 4 July 2013.

Resignations

Mr. Thomas Schultz resigned as a director on 4 July 2013.

Dividend Declaration

The Directors have resolved to award a final dividend for the year of 35 thebe per share (gross of tax).

The important dates pertaining to the dividends are:

Declaration date	12 February 2014
Last day to register for dividend	28 March 2014
Payment of dividend	11 April 2014

For and on Behalf of the Board

B Dambe-Groth (Chairperson)

G Hassam (Group CEO)

05 March 2014