The Directors hereby present unaudited abridged consolidated financial results of Botswana Insurance Holdings Limited (BIHL) and its subsidiaries (the 'Group') for the six months ended 30 June 2014.

## **KEY FEATURES**

## Revenue

Net premium income increased by 15% to P 997.3 million Fee income increased by 19% to P55.1 million Value of new business increased by 84% to P72.2 million

### Assets under management

Assets under management increased by 3% to P27.9 billion

## Earnings

Operating profit before tax increased by 22% to P 151 million Core earnings increased by 9% to P162.2 million Profit attributable to equity holders remained flat at P234.6 million

## Solvency

Business is well capitalized, required capital for the life business is covered 8.8 times (December 2013: 7.7 times)

#### **Embedded Value**

Embedded value increased by 10% to P3.6 Seamental analysis billion. (December 2013: P 3.3 billion)

#### Dividends

P 98.4 million paid as dividends during the period (2013: P56.2 million Interim normal dividend proposed of P 1 million (gross of tax)

## Economic environment

Global growth remains fragile. Industrial production in the US and Euro-zone slow down in the first half of 2014. Emerging economies have also slowed in productio still account for the bulk of global growth

The US Federal Reserve Bank has made some progress on its employment mandate, core inflation rate has remained below 2 percent for almost six years now. In Europe, the threat

of deflation makes reducing rates less risky and there is a chance that the European Central Bank (ECB) might adopt a less conventional monetary policy such as quantitative easing. The main focus worldwide remains growth and monetary policy will continue to be accommodative in major economies.

The local economy recorded a commendable year-on-year growth of 5.2 percent in the first quarter of 2014 and trade surplus of P6.5 billion was recorded in 2013, the first annual trade surplus since 2007. Shortages in electricity, water and slowing credit growth to business remain a challenge. The growth in GDP was due to the growth in the mining sector, hotels and restaurants. The growth in mining contribution was attributable to increases in diamond production. Inflation has remained within the central bank target range of 3 - 6 percent. Inflation is expected to pick up slightly by year-end, but on average should remain within the central bank target range. Credit to the business sector has seen some increase; increasing to 10.8 percent year on year in April 2014, from 3.6 percent in November 2013. The growth in the business sector credit could be seen as a sign of improvement.

# 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 2013

# **FINANCIAL OVERVIEW**

### Analysis of earnings

	6 months to June 2014 P'000	6 months to June 2013 P'000	% Change	Year to 31 Dec 2013 P'000
Analysis of earnings				
Operating profit	150,978	123,672	22%	277,273
Investment income on shareholders's				
assets	11,262	24,972	(55%)	32,807
Core Earnings	162,240	148,644	9%	310,080
Share of profit of associates net of tax	107,718	92,323	17%	189,202
Investment surpluses on				
shareholders assets	14,699	43,486	(66%)	80,112
Profit before tax	284,657	284,453	-	579,394
Tax	(46,470)	(47,426)		(84,621)
Profit after tax	238,187	237,027	1%	494,773
Minority shareholders' interest	(3,634)	(1,878)		(2,273)
Profit attributable to ordinary	· · · · · · · · · · · · · · · · · · ·			
shareholders	234,553	235,149	-	492,500

BIHL GROUP

P3.6	Segmental analysis									
		Life Ins	urance	Asset Ma	nagement	Assoc	iates	Oth	er**	
		6 months								
		to June								
the		2014	2013	2014	2013	2014	2013	2014	2013	
		P'000								
118.1										
	Premium revenue	972,175	845,382	-	-	-	-	25,085	21,942	
wed	Fee revenue	-	-	55,132	57,928	-	-	-	-	
ng market	Inter segmental* Profit/(loss) for the period			2,686	2,622				-	
tion, but h.	after tax	153,833	142,452	32,533	33,793	107,718	92,323	(59,532)	(33,419)	

Notes: \* Accounted as investment expense by Botswana Life \*\*Other includes general insurance, group office and Corporate Social Investment (CSI) activities

## Operating Profit/(Loss) by business

	6 months 6 months				
	to June 2014 P'000	to June 2013 P'000			
Life	161,653	124,642	30%		
Asset management	24,737	19,058	30%		
General insurance	(7,349)	(4,563)	61%		
Associates	137,688	120,521	14%		
Others	(28,063)	(15,464)	81%		
Total	288,666	244,193	18%		

Operating profit for the life business increased by 30 percent due to good operational earnings from all the business lines. The asset management result 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 result has been adversely affected by increased claims in the Legal Guard portfolio as well as the ongoing struggle to achieve profitability in the general lines business. Other expenses relate to the Unit Trusts business and a partial impairment of goodwill relating to the Sure business.

Unaudited Abridged Group results for the six months ended 30 June 2014

Investment income which comprises dividend income and interest income decreased by 55 The General Lines business kept on making losses beyond our level of tolerance. percent due to the prevailing low interest rate environment. Investment surpluses significantly Management consequently entered into negotiations with Botswana Insurance Company reduced due to market volatilities.

## **Embedded value**

The Group's embedded value has increased by 10 percent to P3.6 billion. The embedded value growth was driven by the growth of the value in force for the life business and significant growth in the CAPITAL MANAGEMENT AND SOLVENCY operating profit. 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 significantly compared to the prior period. This is off the back of increased volumes across all product lines in the life insurance business.

## **OVERVIEW OF OPERATIONS**

### Life insurance business

The improvement in the performance of the local economy continued into the first half of 2014 steered by the mining sector. Consistent with the real growth in domestic GDP, we have been experiencing strong new business volumes on all lines with a growth of 15 percent in premium income over H1 2013. The annuity line which contributes substantially to our single premium income posted a solid recovery which spearheaded the growth in total Net Premium Income from P845 million in H1 2013 to P972 million in H1 2014.

Operating Profit grew 30 percent year on year to P 161.7 million from P124.6 million reported in June 2013. All business lines contributed positively to this performance. There was however under achievement on the investment linked individual life business which suffered as a result of reduced investment returns compared to prior year. Unit costs were contained within budget and are 3 percent lower than prior year due to improved new business volumes and disciplined expenditure by management.

The Life Rewards card continued to serve our clients well in availing them a convenient way **DIVIDEND DECLARATION** to receive their benefits and this was evidenced by the increased uptake as it exceeded the 17,000 mark in terms of issued cards with policyholder benefit disbursements through the card exceeding P90 million.

Management continues to focus on the implementation of the Sekgantshwane 2014 strategy to make certain that the organization inches closer towards achieving its goal of competing with the best of the best.

## Asset management business

BIFM Holdings' first half of the year results reflect solid performance in a challenging market and operating environment. There has been strong performance from both BIFM and the Zambia business. Year on year operating profit grew by 30%, while profit before tax and minorities is 3% lower than prior year. The latter is due to extraordinary income received in 2013 which was not repeated in 2014. The good performance is on the back of a strong asset under management position mainly due to market growth and to a lesser extent net fund inflows. Additionally we have seen positive contribution from our various investment property companies. Total assets under management (including Zambia) currently stand at P27.9 billion.

The Unit Trust business, launched last year, continues to experience slow growth. However there are indications that the business will attain reasonable growth by the end of the year.

## Short term insurance business

The BIHL Sure business is comprised of two distinct business lines; the general lines that provides conventional short term insurance solutions and Legal Guard, the leading legal expenses cover product in the country.

The focus in the Legal Guard part of the business is currently on reinvigorating the product. To this end, a major effort was initiated to increase sales, improve service delivery and enhance internal efficiencies to reaffirm ourselves as the market leaders in legal assistance cover. The optimization of Legal Guard is starting to show positive signs and the process is envisaged to continue for the remainder of 2014. 2014 also sees us proudly celebrate the 10th anniversary of the introduction to Botswana of legal assistance solutions for our clientele, a milestone that underpins the relevance of this product offering.



The Group still remains in a very strong position with respect to capital adequacy. The continued strong position was taken into consideration by the board when resolving an interim dividend that was significantly higher than the comparative interim dividend of previous years. The board has consequently adopted an approach in terms of which future dividends will be paid at a level where the Group's capital position will remain strong but more aligned with future capital requirements across the Group and sustained levels of Return on Group Equity Value.

For and on behalf of the Board



Limited (BIC) to sell off the general lines book to BIC and we have now received all required regulatory approvals. We envisage the migration of the general lines book to be completed by mid-September 2014.

# LOOKING AHEAD

We continue to 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, Staff and other Stakeholders for the on-going partnership and support and look forward to serving them in the future.

# **CHANGES IN DIRECTORSHIPS**

## Resignations

Mr. Uttum Corea resigned as a director on 12 February 2014. Mr. Themba Gamedze resigned as a director on 01 July 2014

The Directors have resolved to award an interim dividend of 42 thebe per share (gross of tax)

## The important dates pertaining to the dividends are:

19 August 2014 Declaration date Last day to register for dividend 03 October 2014 Payment of dividend 17 October 2014

B Dambe-Groth (Chairman) G Hassam (Group CEO)

31 August 2014









**BIHL** GROUP

ended 30 June 2014

Botswana Insurance Holdings Limited

Unaudited Abridged Group results for the six months





# **GROUP CONSOLIDATED INCOME STATEMENT**

	6 months to June 2014 P'000	6 months to June 2013 P'000	Year to 31 Dec % 2013 Change P'000
Revenue			
Net premiums	997,260	867,324	15% 1,886,445
Gross premiums - recurring	491,669	456,920	932,803
- single	519,571	417,985	959,681
Premiums ceded to reinsurers	(13,980)	(7,581)	(6,039
Other income	573,153	1,993,350	3,036,277
Fee income	55,132	46,297	19% 98,039
Investment income	331,592	356,359	595,111
Net gains on financial assets held at fair value through profit or loss and			
investment properties	186,429	1,590,694	2,343,127
Total revenue	1.570.413	2.860.674	4,922,722

## Net insurance and investment contract

benefits and claims	(1,114,334)	(2.418.201)	(4,000,278)	
Gross benefits and claims paid	(594,752)	(491,915)	1,065,158)	
Claims ceded to reinsurers	3,420	3,434	5,421	
Change in liabilities under investment contracts Change in policyholder liabilities under	(292,282)	(1,282,184)	(1,719,987)	
insurance contracts	(230,720)	(647,536)	(1,220,554)	AS
				Pro Inta
Expenses	(279,140)	(250,343)	12% (532,252)	Lor
Selling expenses	(119,852)	(112,130)	(243,491)	Inve

(159,288) (138,213)

(288,761)

## Profit before share of profit of associates

Administration expenses

and joint ventures	176,939	192,130	(8%)	390,192
Share of profit of associates and joint				
ventures	107,718	92,323	17%	189,202
Profit before tax	284,657	284,453	0%	579,394
Tax expense	(46,470)	(47,426)		(84,621)
Current tax	(44,396)	(45,927)		(78,610)
Deferred tax	(2,074)	(1,499)		(6,011)
Profit for the period	238,187	237,027	0%	494,773
Profit attributable to:				
- Equity holders of the parent	234,553	235,149	0%	492,500
- Non-controlling interests	3,634	1,878		2,273
	238,187	237,027	0%	494,773

-	-		-
dinary equity ho	Iders of the paren	t)	
86	87	(2%)	183
85	87	(2%)	181
er share			
281,070,652	281,070,652	281,	070,652
(8,072,501)	(12,116,473	(11,2	291,300)
272,998,151	268,954,179	269,	779,352
3,764,695	2,125,111	2,1	40,098
276,762,846	271,079,290	271,	919,450
	86 85 er share 281,070,652 (8,072,501) 272,998,151 3,764,695	86         87           85         87           er share         281,070,652           (8,072,501)         (12,116,473)           272,998,151         268,954,179           3,764,695         2,125,111	85         87         (2%)           er share         281,070,652         281,070,652         281,           (8,072,501)         (12,116,473         (11,2           272,998,151         268,954,179         269,           3,764,695         2,125,111         2,1

# **GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	6 months to June 2014 P'000	6 months to June 2013 P'000	Year to 31 Dec 2013 P'000
Profit for the period	238,187	237,027	494,773
Other comprehensive income Exchange differences on translating foreign operations	(708)	11,307	21,944
Total comprehensive income for the period	237,479	248,334	516,717
Total comprehensive income attributable to: - Equity holders of the parent - Non-controlling interests	233,845 <u>3,634</u> 237,479	246,456 <u>1,878</u> 248,334	514,444 2,273 516,717

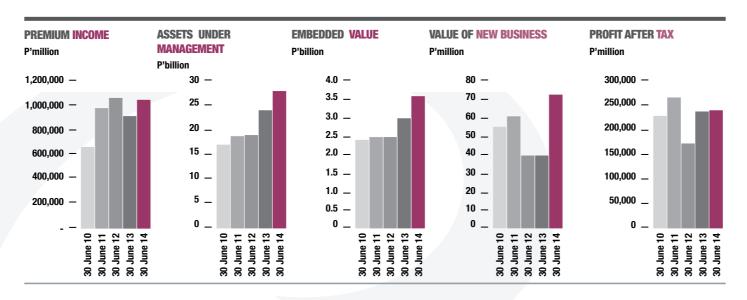
# **GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	At 30 June 2014 P'000	December 2013
SSETS		
roperty and equipment	21,177	20,828
tangible assets	133,916	150,898
ong term reinsurance assets	4,834	6,123
ivestment property	267,210	300,681
vestments in associates and joint ventures	1,511,895	1,345,905
inancial assets at fair value through rofit or loss	11,532,484	11,386,601
Bonds (Government, public authority, listed		
and unlisted corporates)		5,049,888
Equity investments (Local and foreign)	5,795,764	
Policy loans and other loan advances	428,942	
Money market instruments	242,235	
leferred tax asset	2,340	
hort-term insurance receivables	24,822	
rade and other receivables	252,230	,
ax receivable	3,741	,
ash, deposits and similar securities	558,684	
otal assets	14,313,332	14,059,984

# EQUITY AND LIABILITIES

Equity attributable to equity holders of parent

Equity attributable to equity holders of parent		
Stated capital	130,821	130,821
Non distributable reserves	537,951	· · ·
Retained earnings	1,863,577	1,528,886
Total equity attributable to equity		
holders of parent	2,532,349	2,405,401
Non-controlling interests	34,382	34,912
Total equity	2,566,731	2,440,313
Liabilities		
Policyholder liabilities under:	11,231,366	
- Insurance contracts	7,034,303	6,803,582
- Investment contracts	4,197,063	4,319,656
Deferred tax liability	23,924	23,789
Short-term insurance payables and provisions	36,197	34,425
Tax payable	4,987	1,222
Related party balances	118	3,041
Trade and other payables	450,009	433,956
Total equity and liabilities	14,313,332	14,059,984



# **GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

## For the 6 months ended 30 June 2014

As at 1 January 2014 Opening balances Profit for the period FCTR Movement Dividend paid Transfers from non-distributable reserves to retained earnings Other movements in reserves Balances at 30 June 2014

## For the 6 months ended 30 June 2013

As at 1 January 2013 Opening balances Profit for the period FCTR Movement Dividend paid Transfers from retained earnings to non-distributable reserves Other movements in reserves Balances at 30 June 2013

# **GROUP CONSOLIDATED STATEMENT OF CASH FLOWS**

## Cash flows from/(utilised in) operating activities Cash flows (utilised in)/ from investing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at the beginning of the period Cash and cash equivalents at the end of the period

Represented by: Cash deposits and similar securities Funds on deposit

The second **BIHL** GROUP

Stated d capital P'000	Non istributable reserves P³000		Total Equity ttributtable to equity holders of parent P'000	Non- controlling interests P'000	Total Equity P³000
130,821 - -	745,694 - (708)	1,528,886 234,553	2,405,401 234,553 (708)	34,912 3,634 (2,181)	2,440,313 238,187 (2,889)
-	-	(98,374)	(98,374)	(1,983)	(100,357)
-	(209,725) 2,690	209,725 (11,213)	- (8,523)	-	- (8,523)
130,821	537,951	1,863,577	2,532,349	34,382	2,566,731
130,821	574,914	1,239,226 235.149	1,944,961 235,149	33,651 1.878	1,978,612 237,027
-	11,307	-	11,307	-	11,307
-	-	(56,214)	(56,214)	-	(56,214)
-	42,087	(42,087)	-	-	-
130,821	14,037 642,345	(8,395)	5,642 2,140,845	35,529	<u>5,642</u> 2,176,374

6 months	6 months	Year to
to June	to June	31 Dec
2014	2013	2013
P'000	P'000	P'000
12,265	7,325	(3,971,630)
(34,255)	(278,588)	3,791,765
(21,990)	(271,263)	(179,865)
580,674	760,539	760,539
558,684	489,276	580,674
413,490	380,602	119,937
145,194	108,674	460,737
558,684	489,276	



Year to

6 months | 6 months

# **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 business. The value of the in-force business is the present value of future after-tax profits arising f business in force at the calculation date. 6 months | 6 months Ye to June to June 31 2014 2013 P'000 P'000 Embedded value results Shareholders' net assets after fair value adjustments **2,737,760** 2,387,500 2,489 Shareholders' net assets, excluding goodwill 2,430,337 2,025,925 2,313 307,423 361,575 175 Fair value adjustments 840,589 571,936 770 Value of in-force **986,238** 724,936 957, Value before cost of capital Fair value adjustments (41,988) (46,118) (58, Cost of capital (103,661) (106,882) (128 3.578.349 2.959.436 3.260 Embedded value at end of period 13.11 11.00 Embedded value per share (Pula) Embedded value earnings Embedded value at end of period 3,578,349 2,959,436 3,260 3,260,161 2,700,868 2,700 Embedded value at beginning of period Change in embedded value 318,188 258,568 559 Dividends paid 98,375 56,214 **416,563** 314,782 657 Embedded value earnings Return on embedded value 27% 25% These earnings can be analysed as follows: 40,539 40,558 74,697 The main assumptions used are as follows: Expected return on life business in force 72,220 39,163 109,711 Value of new business **70,274** 34,769 101,558 Value at point of sale Expected return to end of period **1,946** 4,394 8,153 34,954 35,273 112,015 Operating experience variances Mortality/Morbidity 37,258 24,264 59,911 Persistency (7,133) 15,536 (5,543) (7,832) (14,115) **2. Other assumptions** (2,117)Expenses 6,946 3,305 71,762 Other Operating assumption changes Mortality/morbidity 33,780 **24,545** (1,703) (3,470) Persistency (5,722) (12,321) (5,528) Expenses 1,712 (3,290) 4,347 Other Embedded value earnings from **168,248** 97,680 325,552 operations Investment variances (26,545) 28,328 96,997 37,426 (14,024) 27,330 Economic assumption changes 6.090 Inflation Long term asset mix **37,426** (14,024) 21,240 Risk discount rate

	to June 2014 P'000	to June 2013 P'000	31 Dec 2013 P'000
Embedded value earnings from			
covered business	179,129	111,984	449,879
Return on shareholders assets	89,285	158,767	312,714
Investment Returns	23,537	60,549	129,854
Net profit non-life operations	65,748	98,218	182,860
Change in shareholders' fund adjustments	148,149	44,031	(104,925
Changes in treasury share adjustments Movement in fair value of incentive scheme	-	-	49,215
shares Movement in present value of holding	22,917	11,443	19,093
company expenses	16,190	16,909	4,849
Movement in other net worth adjustments	109,042	15,679	(178,082
Embedded value earnings	416,563	314,782	657,668
a) Value of new business			
Value of new business at calculation date	72,878	39,163	109,711
Value before cost of capital	79,279	44,568	121,885
Recurring premium	34,333	17,327	44,897
Single premium	44,946	27,241	76,988
Cost of capital	(8,347)	(9,799)	(20,327
Expected return to end of period	1,946	4,394	8,153
b) Fair value adjustments			
Staff share scheme	27,097	(3,470)	4,180
Non-life operations write-up to fair value	213,830	262,500	108,819
Group holding expenses	(41,988)	(46,118)	(58,178
Reversal of cross holding adjustment	66,496	102,545	62,465
Total Consisting of:	265,435	315,457	117,286
Net Asset Value adjustments	307,423	361,575	175,464
Value of In Force adjustments	(41,988)	(46,118)	(58,178

1. Economic assumptions	% p.a	% p.a	% p.a
Risk discount rate	11.50	12.50	11.50
Overall investment return (before taxation)	9.09	10.09	9.09
Expense inflation rate	5.00	6.00	5.00

The assumptions for future mortality, persistency and premium escalation were based on 20,535 (17,314) 29,129 recent experience adjusted for anticipated future trends.