

Botswana Insurance Holdings Limited



Abridged Unaudited Group Results for the six months ended 30 June 2017

The Directors hereby present the unaudited abridged consolidated financial results of Botswana Insurance Holdings Limited (BIHL) and its subsidiaries (the 'Group') for the six months ended 30 June 2017.

Key Highlights

| Revenue | Embedded Value |
|--|---|
| <ul style="list-style-type: none">Net insurance premium income decreased by 4% to P 1.13 billionFee revenue increased by 22% to P 51 millionValue of new business decreased by 22% to P 58 million | <ul style="list-style-type: none">Embedded value decreased marginally by 1% to P 4.31 billion (December 2016: P 4.34 billion)Return on Group Embedded Value is 8.3% (December 2016: 15.2%) |

| Assets Under Management | Dividends |
|--|---|
| <ul style="list-style-type: none">Assets under management increased by 20% to P25 billionCore earnings decreased by 21% to P 164 millionProfit attributable to equity holders decreased by 5% to P 251 million | <ul style="list-style-type: none">P 188.3 million (gross of tax) paid as dividends during the period (Dec 2016: P 188.3 million)Interim normal dividend proposed of P 154.6 million (gross of tax) |

| Earnings | Solvency |
|---|--|
| <ul style="list-style-type: none">Operating profit decreased by 15% to P 151 millionCore earnings decreased by 21% to P 164 millionProfit attributable to equity holders decreased by 5% to P 251 million | <ul style="list-style-type: none">Business is well capitalised, required capital for the Group is covered 6.6 times (December 2016: 6.6 times) |

Group Consolidated Income Statement

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---|--------------------------|--------------------------|--------------------------|
| Revenue | | | |
| Net insurance premium income | 1,126,991 | 1,168,844 | 2,122,963 |
| Gross premium income - recurring | 627,910 | 566,024 | 1,160,195 |
| - single | 511,486 | 615,268 | 989,876 |
| Insurance premiums ceded to reinsurers | (12,405) | (12,448) | (27,108) |
| Other investment income | (9,156) | 248,171 | 3,857 |
| Fee revenue | 51,087 | 42,011 | 91,193 |
| Investment income | 341,340 | 370,513 | 752,757 |
| Net fair value profit on sale of associate | 2,540 | - | - |
| Net losses on financial assets held at fair value through profit or loss | (404,123) | (164,353) | (840,053) |
| Total revenue | 1,117,835 | 1,417,015 | 2,126,819 |
| Net insurance and investment contract benefits and claims | (640,399) | (898,450) | (1,122,953) |
| Gross insurance benefits and claims | (669,896) | (750,059) | (1,559,570) |
| Reinsurance claims | 4,647 | 4,746 | 8,371 |
| Change in liabilities under investment contracts | 265,889 | 4,768 | 676,641 |
| Change in policyholder liabilities under insurance contracts | (242,039) | (157,925) | (248,035) |
| Expenses | (315,211) | (321,804) | (652,857) |
| Sales remuneration | (155,505) | (154,441) | (315,232) |
| Administration expenses | (159,706) | (167,363) | (337,625) |
| Profit before share of profit of associates and joint ventures | 162,225 | 196,761 | 351,369 |
| Share of profit of associates and joint ventures | 127,519 | 117,515 | 224,671 |
| Profit before tax | 289,744 | 314,276 | 576,040 |
| Tax expense | (37,089) | (50,601) | (100,729) |
| Profit for the period | 252,655 | 263,775 | 475,311 |
| Profit attributable to: | | | |
| - Equity holders of the parent | 251,435 | 263,626 | 474,112 |
| - Non-controlling interests | 1,220 | 149 | 1,199 |
| | 252,655 | 263,775 | 475,311 |
| Earnings per share (thebe) (attributable to ordinary equity holders of the parent) | | | |
| - Basic | 92 | 97 | 173 |
| - Diluted | 91 | 95 | 171 |
| Number of shares in issue | 281,070,652 | 281,070,652 | 281,070,652 |

Group Consolidated Statement of Comprehensive Income

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|--|--------------------------|--------------------------|--------------------------|
| Profit for the period | 252,655 | 263,775 | 475,311 |
| Other comprehensive income | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax) | (14,936) | (32,265) | (145,686) |
| Exchange differences on translating foreign operations | 237,719 | 231,510 | 329,625 |
| Total comprehensive income for the period | 237,719 | 231,510 | 329,625 |
| Total comprehensive income attributable to: | | | |
| - Equity holders of the parent | 236,499 | 231,361 | 328,426 |
| - Non-controlling interests | 1,220 | 149 | 1,199 |
| | 237,719 | 231,510 | 329,625 |

Group Consolidated Statement of Financial Position

| | As at 30 June 2017 | As at 30 June 2016 | As at 31 December 2016 |
|--|--------------------|--------------------|------------------------|
| ASSETS | | | |
| Property and equipment | 181,932 | 157,843 | 156,006 |
| Intangible assets | 97,915 | 110,003 | 100,357 |
| Investment property | 110,165 | 110,072 | 110,747 |
| Investments in associates and joint venture | 1,984,408 | 2,052,954 | 1,878,439 |
| Long term reinsurance assets | 2,936 | 2,936 | 2,936 |
| Non-current assets held for sale | - | - | 94,396 |
| Financial assets at fair value through profit or loss | 11,943,799 | 10,978,585 | 11,024,458 |
| - Bonds (Government, public authority, listed and unlisted corporates) | 7,384,010 | 6,782,687 | 7,036,769 |
| - Investment in property funds and companies | 133,931 | 189,385 | 143,594 |
| - Equity investments (Local and foreign) | 3,238,733 | 3,612,105 | 3,322,194 |
| - Policy loans and other loan advances | 80,882 | 405,218 | 416,530 |
| - Money market instruments | 206,243 | 32,190 | 95,381 |
| Insurance and other receivables | 214,400 | 210,678 | 203,977 |
| Tax refund due | 8,915 | 8,187 | 248 |
| Cash, deposits and similar securities | 948,901 | 912,302 | 819,280 |
| Total assets | 14,593,380 | 14,543,560 | 14,390,844 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of parent | | | |
| Stated capital | 130,821 | 130,821 | 130,821 |
| Non-distributable reserves | 425,761 | 508,686 | 444,269 |
| Retained earnings | 2,401,278 | 2,296,511 | 2,341,425 |
| Total equity attributable to equity holders of parent | 2,957,860 | 2,936,018 | 2,916,515 |
| Non-controlling interests | 21,802 | 19,932 | 20,983 |
| Total equity | 2,979,662 | 2,955,950 | 2,937,498 |
| LIABILITIES | | | |
| Policyholder liabilities under: | | | |
| - Insurance contracts | 11,188,448 | 11,055,105 | 10,956,497 |
| - Investment contracts | 8,214,379 | 8,710,211 | 8,800,323 |
| - Investment contracts | 1,974,069 | 2,344,894 | 2,156,174 |
| Deferred tax liability | 18,300 | 18,161 | 17,620 |
| Trade and other payables | 387,812 | 499,313 | 459,773 |
| Short-term insurance payables and provisions | 11,785 | 7,732 | 9,525 |
| Tax payable | 21,802 | 4,205 | 4,083 |
| Related party balances | 7,374 | 2,894 | 6,248 |
| Total equity and liabilities | 14,593,380 | 14,543,560 | 14,390,844 |

Group Consolidated Statement of Changes in Equity

| | Stated capital | Non distributable reserves | Retained earnings | Total equity attributable to equity holders of parent | Non controlling interest | Total equity |
|--|----------------|----------------------------|-------------------|---|--------------------------|------------------|
| As at 1 January 2017 | 130,821 | 444,269 | 2,341,425 | 2,916,515 | 20,582 | 2,937,097 |
| Opening balances | - | - | 251,435 | 251,435 | 1,220 | 252,655 |
| Profit for the period | - | - | 263,626 | 263,626 | 149 | 263,775 |
| Foreign Currency translation reserve movement | - | (14,936) | - | (14,936) | - | (14,936) |
| Dividend paid | - | - | (188,317) | (188,317) | - | (188,317) |
| Transfers from non-distributable reserves to retained earnings | - | 10,208 | (10,208) | - | - | - |
| Other movements in reserves | - | (13,780) | 6,943 | (6,837) | - | (6,837) |
| Balances at 30 June 2017 | 130,821 | 425,761 | 2,401,278 | 2,957,860 | 21,802 | 2,979,662 |
| As at 1 January 2016 | 130,821 | 484,681 | 2,297,105 | 2,912,607 | 18,474 | 2,931,081 |
| Opening balances | - | - | 263,626 | 263,626 | 149 | 263,775 |
| Profit for the period | - | - | 263,626 | 263,626 | 149 | 263,775 |
| Foreign Currency translation reserve movement | - | (32,265) | - | (32,265) | - | (32,265) |
| Dividend paid | - | - | (202,441) | (202,441) | - | (202,441) |
| Transfers from retained earnings to non-distributable reserves | - | 64,491 | (64,491) | - | - | - |
| Other movements in reserves | - | (8,221) | 2,712 | (5,509) | 910 | (4,599) |
| Balances at 30 June 2016 | 130,821 | 508,686 | 2,296,511 | 2,936,018 | 19,533 | 2,955,551 |

Group Consolidated Statement of Cash Flows

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---|--------------------------|--------------------------|--------------------------|
| Cash flows from operating activities | 529,461 | 244,268 | 985,603 |
| Cash flows (utilised in) investing activities | (399,840) | (387,052) | (1,221,409) |
| Net increase/(decrease) in cash and cash equivalents | 129,621 | (142,784) | (235,806) |
| Cash and cash equivalents at the beginning of the period | 819,280 | 1,055,066 | 1,055,066 |
| Cash and cash equivalents at the end of the period | 948,901 | 912,302 | 819,280 |
| Represented by: | | | |
| Cash deposits and similar securities | 817,613 | 792,602 | 718,803 |
| Funds on deposit | 131,288 | 119,700 | 100,477 |
| | 948,901 | 912,302 | 819,280 |

Group Embedded Value

1. DEFINITION OF EMBEDDED VALUE

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

- The value of the shareholders' net assets;
- Fair value adjustments; and
- The value of the in-force business.

The value of in-force business is the present value of future after-tax profits arising from business in force at the valuation date, discounted at the risk discount rate, and adjusted for the cost of capital required to support the business. Other operations have been taken at net asset value.

2. EMBEDDED VALUE RESULTS

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---|--------------------------|--------------------------|--------------------------|
| Shareholders' net assets excluding goodwill | 2,891,898 | 2,853,491 | 2,850,554 |
| Fair value adjustments | - | 104,719 | - |
| | 2,891,898 | 2,958,210 | 2,850,554 |
| Value of in-force business | 1,415,588 | 1,227,585 | 1,488,832 |
| - Value before cost of capital | 1,441,957 | 1,289,393 | 1,406,461 |
| - Fair value adjustments | 144,537 | 94,948 | 239,404 |
| - Cost of capital | (170,906) | (156,755) | (157,033) |
| Embedded value | 4,307,486 | 4,185,796 | 4,339,386 |
| Required Capital | 439,732 | 393,427 | 429,524 |
| Required Capital Cover | 6.6 | 7.5 | 6.6 |
| Embedded value per share (Pula) | 15.33 | 15.24 | 15.44 |

3. EMBEDDED VALUE EARNINGS

The embedded value earnings are derived as follows:

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---|--------------------------|--------------------------|--------------------------|
| Expected return on life business in force | 69,231 | 59,391 | 117,089 |
| Value of new business | 61,253 | 78,866 | 172,275 |
| - Value at point of sale | 58,388 | 102,931 | 161,575 |
| - Expected return to end of period | 2,865 | (24,075) | 10,700 |
| Operating experience variances | 16,717 | 18,797 | (6,251) |
| - Mortality/morbidity | 17,531 | 10,995 | 24,860 |
| - Persistency | (16,372) | (12,603) | (31,305) |
| - Expenses | 107 | (13,721) | (18,895) |
| - Other | 15,451 | 34,216 | 19,089 |

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Operating assumption changes | 9,917 | (46,979) | 4,781 |
| - Mortality/morbidity | - | (1,883) | 2,183 |
| - Persistency | 7,331 | (5,580) | 78,170 |
| - Expenses | - | (2,329) | 3,394 |
| - Other | 2,586 | (37,187) | 1,014 |

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---|--------------------------|--------------------------|--------------------------|
| Embedded value earnings from operations | 157,118 | 110,065 | 367,874 |
| Investment variances | (14,145) | (11,205) | (44,516) |
| Economic assumption changes | - | 28,880 | 33,535 |
| - Interest and Inflation | - | 21,821 | 3,241 |
| - Risk discount rate | - | 7,059 | 30,294 |

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|---------------------------|--------------------------|--------------------------|--------------------------|
| Growth from life business | 142,973 | 127,274 | 356,892 |

| | 6 months to 30 June 2017 | 6 months to 30 June 2016 | Year to 31 December 2016 |
|----------------------------------|--------------------------|--------------------------|--------------------------|
| Return on shareholders assets | 129,665 | 77,294 | 200,382 |
| - Investment Returns | 8,891 | (19,807) | 11,788 |
| - Net profit non-life operations | 120,774 | 97,101 | 188,594 |

Group Embedded Value (continued)

| | (96,334) | (12,542) | 77,349 |
|---|----------------|----------------|----------------|
| Change in shareholders' fund adjustments | 11,716 | 1,656 | 3,423 |
| - Investment surpluses on treasury shares | 16,261 | (5,477) | (1,883) |
| - Movement in present value of holding company expenses | 319 | (12,676) | (15,658) |
| - Movement in fair value of incentive scheme shares | (124,630) | (6,076) | 91,461 |
| - Movement in other net worth adjustments | | | |
| Embedded value earnings | 176,303 | 192,491 | 634,624 |
| Fair value adjustments | | | |
| - Staff share scheme | (36,252) | (56,106) | (52,512) |
| - Non-life operations write-up to fair value | 169,772 | 247,749 | 292,935 |
| - Group holding expenses | (118,715) | (114,052) | (117,034) |
| - Reversal of cross holding adjustment | 127,732 | 124,272 | 16,016 |
| Total | 144,537 | 201,864 | 239,404 |
| Consisting of: | | | |
| - Net asset value adjustments | - | 106,916 | - |
| Cash deposits and similar securities | 817,613 | 792,602 | 718,803 |
| Funds on deposit | 131,288 | 119,700 | 100,477 |
| | 948,901 | 912,302 | 819,280 |

4. VALUE OF NEW BUSINESS

The value of new business represents the value of projected after-tax profits at the point of sale arising from new policies sold during the year to 30 June 2017, accumulated to the end of the year of the year at the risk discount rate. The value is adjusted for the cost of capital required to support the new business.

| | 30-Jun-17 | 30-Jun-16 | 31-Dec-16 |
|---|-----------|-----------|-----------|
| Value of new business | | | |
| Value at point of sale after cost of capital | 58,388 | 102,931 | 161,575 |
| - Value at point of sale before cost of capital | 60,823 | 110,573 | 171,170 |
| - Recurring premium | 32,019 | 83,349 | 94,991 |
| - Single premium | 28,804 | 27,224 | 76,179 |
| - Cost of capital at point of sale | (2,435) | (7,642) | (9,595) |
| - Expected return to end of period | 2,865 | (24,075) | 10,700 |

5. SENSITIVITY TO THE RISK DISCOUNT RATE

The risk discount rate appropriate to an investor will vary depending on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of the Botswana Insurance Holdings Limited Group. The sensitivity of the embedded value to the risk discount rate is set out below.

| | 9.5% | 10.5% | 11.5% |
|---|-----------|-----------|-----------|
| Risk Discount Rate | | | |
| Shareholder's net assets and fair value adjustments, excluding goodwill | 2,891,898 | 2,891,898 | 2,891,898 |
| Value of in-force business | 1,804,016 | 1,415,588 | 1,327,408 |
| - Value before cost of capital | 1,809,817 | 1,441,957 | 1,371,799 |
| - Fair value adjustments | 144,537 | 144,537 | 144,537 |
| - Cost of capital | (150,338) | (170,906) | (188,929) |

| | 9.5% | 10.5% | 11.5% |
|---|-----------|-----------|-----------|
| Embedded value | 4,695,914 | 4,307,486 | 4,219,306 |
| Value of new business at valuation date | 17,397 | 58,388 | 54,325 |
| - Value before cost of capital | 73,558 | 60,823 | 57,043 |
| - Cost of capital | (2,161) | (2,435) | (2,718) |

6. ASSUMPTIONS

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

ECONOMIC ENVIRONMENT

Global economic growth is projected at 3.5% in 2017 and 3.6% in 2018, a pick up from the estimated 3.2% for 2016. For advanced economies, headwinds to growth are weak investment, aging populations and slowly advancing productivity. The world economy growth is expected to pick up on account of cyclical recovery in investment, manufacturing and trade.

After contracting by 1.7% in 2015 (budget speech 2017), the domestic economy grew by 4.3% in 2016 largely because of improvement in the diamond trade. Mining sector contracted at a slower pace of 3.7% in 2016 compared to a contraction of 19.6% in 2015. The domestic economy is expected to grow by 4.2% in 2017. However, the main risks to the domestic growth prospects are the unstable world economy outlook, and the constrained household income growth, which suppresses demand; hence, we believe that outlook for the domestic economy remains fragile.

The Pula exchange rate system was reviewed in 2016 to maintain a stable and competitive real effective exchange rate for the Pula. In the new exchange rate basket of currencies, the Rand has a weight of 45%, down from