

# Abridged Audited Group Financial Results

For the Year Ended 31 December 2013



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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 P1.9 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 P277.3 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)

## 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<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>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<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>P'000 |
|-------------------------------------|---|---|
| <b>Operating profit by business</b> |   |   |
| 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)                                |
| <b>Total</b>                        | <b>277,273</b>                          | <b>232,764</b>                          |

## Financial Overview (continued)

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



# Abridged Audited Group Financial Results For the Year Ended 31 December 2013



## Group Consolidated Income Statement

|   | Year to<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>P'000 | % Change   |
|---|---|---|------------|
| <b>Revenue</b>  |   |   |            |
| 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)                                |            |
| <b>Other income</b>   | 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                                 |            |
| <b>Total revenue</b>  | <b>4,922,722</b>                        | <b>3,112,192</b>                        | <b>58%</b> |
| <b>Net insurance and investment contract benefits and claims</b>                                  | (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)                             |            |
| <b>Expenses</b>   | (532,252)                               | (508,637)                               | 5%         |
| Selling expenses  | (243,491)                               | (219,165)                               |            |
| Administration expenses   | (288,761)                               | (289,471)                               |            |
| <b>Profit before share of profit of associates and joint ventures</b>                             | <b>390,192</b>                          | <b>288,849</b>                          | <b>35%</b> |
| Share of profit of associates and joint ventures net of tax                                       | 189,202                                 | 196,482                                 | (4%)       |
| <b>Profit before tax</b>  | <b>579,394</b>                          | <b>485,331</b>                          | <b>19%</b> |
| Tax   | (84,621)                                | (90,936)                                |            |
| Current tax   | (78,610)                                | (85,835)                                |            |
| Deferred tax  | (6,011)                                 | (5,420)                                 |            |
| Other taxes   | -                                       | 319                                     |            |
| <b>Profit for the year</b>  | <b>494,773</b>                          | <b>394,395</b>                          | <b>25%</b> |
| <b>Profit attributable to:</b>  |   |   |            |
| - Equity holders of the parent  | 492,500                                 | 390,918                                 | 26%        |
| - Non-controlling interests   | 2,273                                   | 3,477                                   |            |
|   | <b>494,773</b>                          | <b>394,395</b>                          | <b>25%</b> |
| 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<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>P'000 |
|--|---|---|
| Profit for the year                                    | 494,773                                 | 394,395                                 |
| <b>Other comprehensive income</b>                      |   |   |
| 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<br>December<br>2013<br>P'000 | At 31<br>December<br>2012<br>P'000 |
|--|------------------------------------|------------------------------------|
| <b>ASSETS</b>  |                                    |                                    |
| 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                              |
| <b>Financial assets at fair value through profit or loss</b>           | <b>11,386,601</b>                  | <b>12,517,189</b>                  |
| - 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                            |
| <b>Total assets</b>  | <b>14,059,984</b>                  | <b>15,416,868</b>                  |
| <b>EQUITY AND LIABILITIES</b>  |                                    |                                    |
| <b>Equity attributable to equity holders of parent</b>                 |                                    |                                    |
| Stated capital   | 130,821                            | 130,821                            |
| Non distributable reserves   | 745,694                            | 574,914                            |
| Retained earnings  | 1,528,886                          | 1,239,226                          |
| <b>Total equity attributable to equity holders of parent</b>           | <b>2,405,401</b>                   | <b>1,944,961</b>                   |
| Non-controlling interests  | 34,912                             | 33,651                             |
| <b>Total equity</b>  | <b>2,440,313</b>                   | <b>1,978,612</b>                   |
| <b>Liabilities</b>   |                                    |                                    |
| Policyholder liabilities under:  | 11,123,238                         | 12,966,214                         |
| - Insurance contracts  | 6,803,582                          | 5,592,072                          |
| - Investment contracts   | 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                            |
| <b>Total equity and liabilities</b>                                    | <b>14,059,984</b>                  | <b>15,416,868</b>                  |

## Group Consolidated Statement of Changes in Equity

|  | Stated capital<br>P'000 | Non distributable<br>reserves<br>P'000 | Retained<br>earnings<br>P'000 | Total Equity<br>attributable<br>to equity<br>holders<br>of parent<br>P'000 | Non-<br>controlling<br>interests<br>P'000 | Total<br>Equity<br>P'000 |
|--|-------------------------|--|-------------------------------|--|---|--------------------------|
| <b>Year to 31 December 2012</b>                                |                         |  |                               |  |   |                          |
| 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                   |
| <b>Balances at 31 December 2012</b>                            | <b>130,821</b>          | <b>574,914</b>                         | <b>1,239,226</b>              | <b>1,944,961</b>   | <b>33,651</b>                             | <b>1,978,612</b>         |

|  | Stated capital<br>P'000 | Non distributable<br>reserves<br>P'000 | Retained<br>earnings<br>P'000 | Total Equity<br>attributable<br>to equity<br>holders<br>of parent<br>P'000 | Non-<br>controlling<br>interests<br>P'000 | Total<br>Equity<br>P'000 |
|--|-------------------------|--|-------------------------------|--|---|--------------------------|
| <b>Year to 31 December 2013</b>                                |                         |  |                               |  |   |                          |
| 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                   |
| <b>Balances at 31 December 2013</b>                            | <b>130,821</b>          | <b>745,694</b>                         | <b>1,528,886</b>              | <b>2,405,401</b>   | <b>34,912</b>                             | <b>2,440,313</b>         |

## Group Consolidated Statement of Cash Flows

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

## 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<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>P'000<br>Restated | Year to<br>31 December<br>2013<br>P'000 | Year to 31<br>December<br>2012<br>P'000<br>Restated |
|--|---|---|---|---|
| <b>Embedded value results</b>  |   |   | <b>449,879</b>                          | <b>233,524</b>                                      |
| Shareholders' net assets after fair value adjustments  | 2,489,393                               | 2,164,327   |   |   |
| Shareholders' net assets, excluding goodwill   | 2,313,929                               | 1,829,874   | 312,714                                 | 224,388   |
| Fair value adjustments   | 175,464                                 | 334,453   | 129,854                                 | 57,687  |
| Value of in-force  | 770,768                                 | 536,541   | 182,860                                 | 166,701   |
| 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   |   |   |
| <b>Embedded value earnings</b>   |   |   |   |   |
| 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   |   |   |
| <b>Embedded value earnings</b>   | <b>657,668</b>                          | <b>448,606</b>                                      |   |   |
| <b>Return on embedded value</b>  | <b>24%</b>                              | <b>19%</b>  |   |   |
| <b>These earnings can be analysed as follows:</b>  |   |   |   |   |
| 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  |   |   |
| Persistence  | (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   |   |   |
| Persistence  | (3,470)                                 | 45,791  |   |   |
| Expenses   | (5,528)                                 | (14,011)  |   |   |
| Other  | 4,347                                   | (20,319)  |   |   |
| <b>Embedded value earnings from operations</b>   | <b>325,552</b>                          | <b>205,246</b>                                      |   |   |
| Investment variances   | 96,997                                  | 17,761  |   |   |
| Economic assumption changes  | 27,330                                  | 10,517  |   |   |
| Inflation  | 6,090                                   | 10,517  |   |   |
| Risk discount rate   | 21,240                                  | -   |   |   |
| <b>Embedded value earnings from covered business</b>   |   |   | <b>449,879</b>                          | <b>233,524</b>                                      |
| 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)   |
| <b>Embedded value earnings</b>   |   |   | <b>657,668</b>                          | <b>448,606</b>                                      |
| <b>a) Value of new business</b>  |   |   |   |   |
| 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>b) Fair value adjustments</b>   |   |   |   |   |
| 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   |
| <b>Total</b>   |   |   | <b>117,286</b>                          | <b>271,426</b>                                      |
| Consisting of:   |   |   |   |   |
| Net Asset Value adjustments  |   |   | 175,464                                 | 334,453   |
| Value of In Force adjustments  |   |   | (58,178)                                | (63,027)  |
| <b>c) Assumptions</b>  |   |   |   |   |
| The main assumptions used are as follows:  |   |   |   |   |
| <b>1. Economic assumptions</b>   |   |   | <b>% p.a.</b>                           | <b>% p.a.</b>                                       |
| Risk discount rate   |   |   | 11.50                                   | 12.50   |
| Overall investment return (before taxation)  |   |   | 9.09                                    | 10.09   |
| Expense inflation rate   |   |   | 5.00                                    | 6.00  |
| <b>2. Other Assumptions</b>  |   |   |   |   |
| The assumptions for future mortality, persistency and premium escalation were based on recent experience adjusted for anticipated future trends.   |   |   |   |   |
| <b>Restatement of Embedded Value</b>   |   |   |   |   |
| 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. |   |   |   |   |