

## Botswana Insurance Holdings Limited Group

Audited Group Results for the Year Ended 31 December 2012.

The Directors hereby present the results of Botswana Insurance Holdings Limited (BIHL) for the year ended 31 December 2012

### Key features

2012 presented the Group with tough economic conditions as well as a number of regulatory changes which affected the performance of the business. The Group focused on accommodating this changing environment as well as diversifying the sources of revenue by investing in the short term insurance industry, increasing its shareholding in associates and improving IT operating systems.

### Revenue

Net premium income increased by 10% to P 1.9 billion

Fee income decreased by 33% to P74.7 million

Value of new business decreased by 14% to P99.3 million

### Earnings

Operating profit decreased by 15% to P 232.8 million

Core earnings decreased by 9% to P276.80 million

Profit attributable to equity holders decreased by 16% to P390.9 million

### Assets under management

Assets under management increased by 21% to P21.6 billion

### Embedded Value

Embedded value increased by 7% to P2.6 billion

### Solvency

Business is well capitalized, required capital covered 6.8 times (December 2011: 5.9 times)

### Dividends

P 157.4 million paid as dividends during the year (2011: P185.5 million)

Final normal dividend proposed of 20 thebe per share (gross of tax)

### Economic environment

The global economic data generally improved during 2012. Although emerging markets' growth rates have moderated, it still exceeds those achieved in developed economies. Overall average GDP growth is expected to reach 3.5 percent in 2013, and to further strengthen to 4.1 percent in 2014. Equities rallied during 2012 on the back of improving economic data and unorthodox monetary policies adopted by central banks. The global economic recovery however remains fragile due to policy uncertainty and the ongoing European sovereign debt crisis. Low inflation and uncomfortably high unemployment rates in major world economies suggest that loose monetary policy stances are likely to be maintained in 2013.

Locally, GDP figures for 2012 Q3 show strong economic growth of 7.7% over the 12 months to September 2012. The non-mining private sector continued to perform well, with growth of 11.6%. The diamond market remains weak and has been hit by weak demand from the traditional markets in the USA and Europe, as well as slower growth in China and India, which have recently been driving demand growth. There is financial pressure on consumer households with reduced expenditure on insurance products. Although conditions are expected to improve in 2013, there is unlikely to be a dramatic change.

### 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 2011.

### Financial overview

	Year to 31 Dec 2012 P'000	Year to 31 Dec 2011 P'000	% Change
<b>Analysis of earnings</b>			
Operating profit	232,764	273,146	(15%)
Investment income on shareholders' assets	44,031	30,612	44%
<b>Core earnings</b>			
276,795	303,758	(9%)	
Profit on sale of subsidiary	-	33,785	(100%)
Share of profit of associates and joint ventures net of tax			
196,482	133,872	47%	
Investment gains on shareholders' assets	12,055	56,998	(79%)
Profit before tax			
485,332	528,413	(8%)	
Tax (90,936)	(57,083)	59%	
Profit after tax	394,395	471,330	(16%)
Non-controlling interests	(3,477)	(8,357)	(58%)
Profit attributable to ordinary shareholders	390,918	462,973	(16%)

	Year to 31 Dec 2012 P'000	Year to 31 Dec 2011 P'000
<b>Operating Profit by business</b>		
Life	239,542	247,881
Asset management	36,504	46,419
General insurance	(2,447)	2,749
Group expenses	(29,932)	(22,391)
Other	(10,903)	(1,511)
Total	232,764	273,146

The life insurance operating profit decreased by 3% to P239.5 million primarily as a result of pressure on household disposable incomes. The asset management results were affected by the sale of the 21% held in our Zambian associate as well as the increased costs of regulatory compliance. The short term insurance loss is as a result of the expansion into short term insurance industry in order to lay a foundation for future sources of revenue. The Group expenses are high due to the investments in this project and investments in improved IT systems to further improve customer service.

Investment income, which comprises interest and dividend income, increased by 44% to P44 million. Investment gains reduced by 79% to P12.1 million due to continued volatility in the global markets.

The Group's share of profit in associates and joint ventures significantly increased to P196.5 million, due to an increased stake in one of the associates in 2011 and good underlying performance.

### Embedded value

The Group's embedded value has increased by 7% to P2.6 billion. The embedded value was positively affected by significant improvement in persistency/lapses; however poor unit expense experience negatively affected performance. The embedded value allows for P157.4 million dividends paid during the year.

### Value of new life business

The value of new life business decreased by 14% to P99.3 million mainly due to low sales volumes on the individual life business as a result of the above mentioned pressure on individual disposable income. New business margins have been maintained at satisfactory levels.

## Botswana Insurance Holdings Limited Group

Audited Group Results for the Year Ended 31 December 2012.

### Overview of operations

#### Life insurance business

The challenges of a slow economic recovery persisted throughout 2012; the effects were mainly felt on the retail segment of our business, which was exposed to high levels of debt and shrinking real incomes and had to contend with inflationary pressures resulting in low new business sales. This is reflected in the decrease in operating profit by 3% to P239.5 million. Net Premium Income increased by 9% over prior year to P1.9 billion. The growth was driven mainly by the annuity portfolio which grew by 26% year on year. Our bancassurance relationships and group schemes contributed positively, recording a growth of 6% over prior year.

The efforts of the conservation project launched in 2011 are now paying off as evidenced by a downward trend in lapses; this good experience has contributed positively to the operating profit result and the growth in Embedded Value.

We successfully stabilized the new life insurance system and we would like to take this opportunity to thank our clients, brokers and all business partners, for their patience during this transition period. Our customers are now enjoying the benefits of the new system that include keeping our clients more regularly informed on the status of their policies. We continue to fine-tune the system and our clients can look forward to improved service in the future. We adopted a new corporate strategy in 2011. 2012 marked the successful implementation of the first phase. In 2013 the business looks forward to benefit from the strong building blocks laid during the past year.

#### Asset management business

Assets under management (AUM) increased by 21% to P21.6 billion. The satisfactory increase was mainly as a result of client retention. This reflects our continued commitment to client-centricity adding new products and services to transform ourselves into a truly diversified financial services firm. Asset management operating profit for the year 2012 reduced by 21% when compared to 2011. This was mainly due to the Zambian transaction already explained above.

We have restructured our investment department and have implemented new operating systems in order to improve client service and realize operational efficiencies. To build on the higher profile that has come with the successful development of Airport Junction and Rail Park malls, we launched Botswana's first property index, the BIFM-IPD property index. We have also been seeing a number of property deals coming our way, strengthening our deal pipeline. The Collective Investment Units (CIU) offering will be launched to the market in March 2013. We are very excited about the opportunity to enhance the range of savings that will be available to our retail clients.

#### Short term insurance business

During the course of 2012 the full re-engineering of the Group's short-term insurance business, BIHL Sure!, was completed. In the course of introducing this new offering we have also implemented an IT system that will support our aim of being well in the forefront of the industry in terms of customer service levels.

Beginning May 2012 an extended range of insurance products was launched to the market and these are receiving acceptable levels of support from direct buyers and brokers. Legal Guard remains the key component of the business, and during the year it extended its domination of the legal expenses insurance market. We are extremely pleased with the substantial growth that has been experienced in this division. The prospects for 2013 are good, and the business has set itself aggressive growth targets that we nevertheless consider to be achievable despite the very competitive operational environment.

### Capital management and solvency

The Group still remains in a very strong position with respect to capital requirements. This is a key focus area.

### 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.

### Changes in directorships

#### Appointments

Mr. Robert Dommissie was appointed as a director on 20 November 2012.

Mr. Themba Gamedze was appointed as a director on 20 November 2012.

#### Resignations

Ms. Margaret Dawes resigned as a director on 07 November 2012.

Mr. Francois Kellerman resigned as a director on 16 August 2012.

### Dividend declaration

The Directors have resolved to award a final dividend for the year of 20 thebe per share (gross of tax).

The important dates pertaining to the dividends are:

Declaration date	12 February 2013
Last day to register for dividend	05 April 2013
Payment of dividend	19 April 2013

#### For and on behalf of the Board

B Dambe-Groth (Chairperson)

G Hassam (Group CEO)

12 February 2013

# Audited

## Group Results for the Year Ended 31 December 2012

Strength in Numbers

  
BIHL GROUP





### Group Consolidated Income Statement

	Year to 31 Dec 2012 P'000	Year to 31 Dec 2011 P'000	% Change
<b>Revenue</b>			
Net premiums	1,949,585	1,767,046	10%
Gross premiums- recurring	846,427	894,827	
- single	1,121,181	887,226	
Premiums ceded to reinsurers	(18,023)	(15,007)	
<b>Other income</b>	1,162,607	1,028,628	
Fee income	74,700	110,944	(33%)
Investment income	442,563	749,577	
Profit on sale of subsidiary	-	33,785	
Net gains on financial assets held at fair value through profit or loss and investment properties	645,344	134,323	
<b>Total revenue</b>	<b>3,112,192</b>	<b>2,795,675</b>	
<b>Net insurance and investment contract benefits and claims</b>	(2,314,707)	(1,935,869)	
Gross benefits and claims paid	(913,665)	(925,064)	
Claims ceded to reinsurers	9,489	17,605	
Change in liabilities under investment contracts	(383,646)	(400,986)	
Change in policyholder liabilities under insurance contracts	(1,026,885)	(627,424)	
<b>Expenses</b>	(508,636)	(465,265)	
Selling expenses	(219,165)	(219,687)	
Administration expenses	(289,471)	(245,578)	
<b>Profit before share of profit of associates and joint ventures</b>	<b>288,849</b>	<b>394,541</b>	
Share of profit of associates and joint ventures	196,482	133,872	47%
<b>Profit before tax</b>	<b>485,331</b>	<b>528,412</b>	(8%)
<b>Tax</b>	(90,936)	(57,083)	
Current tax	(85,835)	(73,408)	
Deferred tax	(5,420)	(5,371)	
Withholding tax on dividends	219	22,556	
Capital gains tax	100	(860)	
<b>Profit for the year</b>	<b>394,395</b>	<b>471,330</b>	(16%)
<b>Profit attributable to:</b>			
- Equity holders of the parent	390,918	462,973	(16%)
- Non-controlling interests	3,477	8,357	(16%)
<b>Earnings per share (thebe) (attributable to ordinary equity holders of the parent)</b>			
- Basic	145.80	174.17	(16%)
- Diluted	144.84	173.26	(17%)
Number of shares for calculating earnings per share	281,070,652	281,070,652	
Number of shares in issue	281,070,652	281,070,652	
Less shares in share scheme and treasury shares	(12,960,247)	(15,258,658)	
Shares used for calculating basic earnings per share	268,110,405	265,811,994	
Weighted number of dilutive options	1,782,906	1,396,338	
Shares used for calculating diluted earnings per share	269,893,311	267,208,332	

### Group Consolidated Statement of Comprehensive Income

	Year to 31 Dec 2012 P'000	Year to 31 Dec 2011 P'000
<b>Profit for the year</b>	<b>394,395</b>	<b>471,330</b>
<b>Other comprehensive income</b>		
Exchange differences on translating foreign operations	10,718	30,649
<b>Total comprehensive income for the period</b>	<b>405,113</b>	<b>501,979</b>
<b>Total comprehensive income attributable to:</b>		
- Equity holders of the parent	401,636	493,622
- Non-controlling interests	3,477	8,357
	405,113	501,979

### Group Consolidated Statement of Financial Position

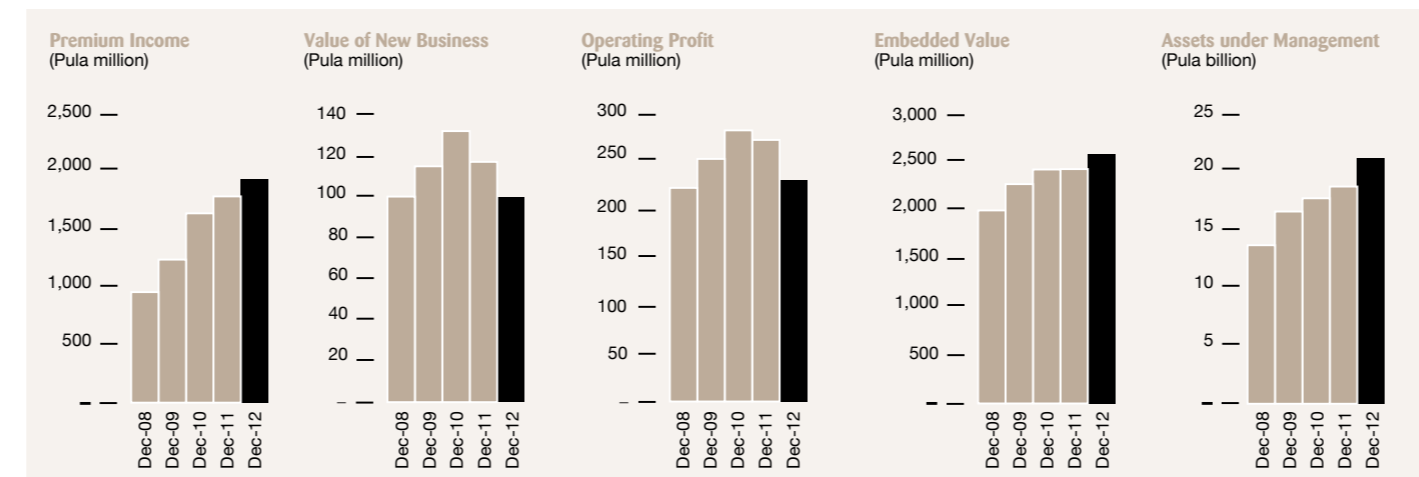
	At 31 Dec 2012 P'000	At 31 Dec 2011 P'000
<b>ASSETS</b>		
Property and equipment	10,911	13,669
Intangible assets	154,001	145,627
Long term reinsurance assets	9,041	17,467
Investment property	383,367	361,466
Investments in associates and joint ventures	1,268,707	993,583
Financial assets at fair value through profit or loss	12,629,620	9,756,100
- Bonds (Government, public authority, listed and unlisted corporates)	5,475,367	4,499,728
- Equity investments (Local and foreign)	6,898,962	4,896,650
- Policy loan and other loan advances	138,235	146,540
- Money market instruments	117,056	213,182
Deferred tax asset	190	194
Trade and other receivables	185,080	191,699
Tax receivable	15,412	-
Cash, deposits and similar securities	760,539	1,248,600
<b>Total assets</b>	<b>15,416,868</b>	<b>12,728,405</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Stated capital	130,821	130,821
Non distributable reserves	574,914	468,891
Retained earnings	1,239,226	1,091,083
<b>Total equity attributable to equity holders of the parent</b>	<b>1,944,961</b>	<b>1,690,795</b>
Non-controlling interests	33,651	36,050
<b>Total equity</b>	<b>1,978,612</b>	<b>1,726,845</b>
<b>Liabilities</b>		
<b>Policyholder liabilities under:</b>	<b>12,966,214</b>	<b>10,587,045</b>
- Insurance contracts	5,592,070	4,573,612
- Investment contracts	7,374,144	6,013,433
Deferred tax liability	17,939	12,726
Tax payable	5,257	11,024
Related party balances	4,157	6,691
Trade and other payables	444,689	384,074
<b>Total equity and liabilities</b>	<b>15,416,868</b>	<b>12,728,405</b>

### 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
<b>Year to 31 December 2011</b>						
Opening balances	130,821	320,270	923,168	1,374,258	31,588	1,405,847
Profit for the year	-	-	462,973	462,973	8,357	471,330
Dividend paid	-	-	(185,520)	(185,520)	(3,588)	(189,108)
Transfers from retained earnings to non-distributable reserves	-	91,129	(91,129)	-	-	-
Other movements in reserves	-	57,492	(18,409)	39,083	(307)	38,776
<b>Balances at 31 December 2011</b>	<b>130,821</b>	<b>468,891</b>	<b>1,091,083</b>	<b>1,690,795</b>	<b>36,050</b>	<b>1,726,845</b>
<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
Dividend paid	-	-	(157,400)	(157,400)	-	(157,400)
Transfers from retained earnings to non-distributable reserves	-	62,426	(62,426)	-	-	-
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>

### Group Consolidated Statement of Cash Flows

	Year to 31 Dec 2012 P'000	Year to 31 Dec 2011 P'000
Cash flows from operating activities	2,534,023	335,820
Cash flows utilised in investing activities	(3,022,083)	(463,448)
<b>Net decrease in cash and cash equivalents</b>	<b>(488,061)</b>	<b>(127,628)</b>
Cash and cash equivalents at the beginning of the year	1,248,600	1,376,228
Cash and cash equivalents at the end of the year	760,539	1,248,600
<b>Represented by:</b>		
Cash deposits and similar securities	116,593	104,772
Funds on deposit	643,946	1,143,828
	760,539	1,248,600



### 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 Dec 2012	Year to 31 Dec 2011
<b>Embedded value results</b>		
Shareholders' net assets after fair value adjustments	2,039,920	1,910,576
Shareholders' net assets, excluding goodwill	1,830,040	1,575,711
Fair value adjustments	209,880	334,865
Value of in-force	536,541	499,086
Value before cost of capital	708,461	642,589
Fair value adjustments	(63,027)	(54,132)
Cost of capital	(108,893)	(89,371)
<b>Embedded value at end of year</b>	<b>2,576,461</b>	<b>2,409,662</b>
Required Capital	279,317	257,537
Required Capital Cover	6.8	5.9
Embedded value per share (Pula)	9.61	9.07
<b>Embedded value earnings</b>		
Embedded value at end of year	2,576,461	2,409,662
Embedded value at beginning of year	2,409,662	2,406,628
Change in embedded value	166,799	3,034
Dividends paid	157,400	185,520
<b>Embedded value earnings</b>	<b>324,199</b>	<b>188,554</b>
<b>Return on embedded value</b>	<b>13%</b>	<b>8%</b>
<b>These earnings can be analysed as follows:</b>		
Expected return on life business in force	80,200	81,376
Value of new business	99,307	115,305
Value at point of sale	90,198	106,046
Expected return to end of period	9,109	9,259
Operating experience variances	7,599	10,438
Mortality/Morbidity	58,696	45,485
Persistency	(23,974)	(13,967)
Expenses	(6,867)	3,464
Other	(20,256)	(24,544)
Operating assumption changes	18,140	(37,735)
Mortality/morbidity	6,679	(27,502)
Persistency	45,791	(26,719)
Expenses	(14,011)	1,256
Other	(20,319)	15,230

	Year to 31 Dec 2012	Year to 31 Dec 2011
<b>Embedded value earnings from operations</b>	<b>205,246</b>	<b>169,384</b>
Investment variances	17,761	(5,953)
Economic assumption changes	10,517	-
Investment return	-	-
Inflation	10,517	-
Risk discount rate	-	-
Asset mix assumptions	-	-
Gap changes	-	-
<b>Embedded value earnings from covered business</b>	<b>233,524</b>	<b>163,431</b>
Return on shareholders assets	224,388	319,188
Investment Returns	57,687	154,147
Net profit non-life operations	166,701	165,041
<b>Change in shareholders' fund adjustments</b>	<b>(133,631)</b>	<b>(294,065)</b>
Changes in treasury share adjustments	-	-
Movement in fair value of incentive scheme shares	1,390	(26,092)
Movement in present value of holding company expenses	(8,895)	(14,282)
Movement in other net worth adjustments	(126,126)	(253,691)
<b>Embedded value earnings</b>	<b>324,199</b>	<b>188,554</b>
<b>a) Value of new business</b>		
Value of new business at calculation date	99,307	115,305
Value before cost of capital	107,752	120,486
Recurring premium	31,782	59,105
Single premium	75,970	61,381
Cost of capital	(17,554)	(14,440)
Expected return to end of year	9,109	9,259
<b>b) Fair value adjustments</b>		
Staff share scheme	(14,913)	(16,302)
Non-life operations write-up to fair value	62,218	336,360
Group holding expenses	(63,027)	(54,132)
Other group operations write-up to fair value	62,218	(81,561)
Reversal of cross holding adjustment	100,605	96,368
<b>Total</b>	<b>147,101</b>	<b>280,733</b>
Consisting of:		
Net Asset Value adjustments	210,128	334,865
Value of In Force adjustments	(63,027)	(54,132)
<b>c) Assumptions</b>		
The main assumptions used are as follows:		
1. Economic assumptions	% p.a	% p.a
Risk discount rate	12.50	13.00
Overall investment return (before taxation)	10.09	10.59
Expense inflation rate	6.00	6.50
2. Other assumptions		
The assumptions for future mortality, persistency and premium escalation were based on recent experience adjusted for anticipated future trends.		