

BOTSWANA INSURANCE HOLDINGS LIMITED



Group Salient Features....

- Headline earnings of P61 million, increase of 7%
- Embedded value increases to P808 million
- Recurring individual premium income of P132 million, 7% increase
- Assets under management increase to P6.5 billion, increase of 10%



Strength & Security

ABRIDGED UNAUDITED GROUP RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

Group Income Statement	Unaudited 6 months to 30 Sept. 2004 P'000	Unaudited 6 months to 30 Sept. 2003 P'000	Audited Year to 31 March 2004 P'000
Premium income	235,657	235,476	488,892
Recurring	144,928	138,602	289,468
Individual life	132,383	124,146	267,544
Group benefits	12,545	14,456	21,924
Single	90,729	96,874	199,424
Individual life	88,997	95,000	196,410
Group benefits	1,732	1,874	3,014
Net investment returns and other income	99,654	103,784	266,379
Net fair value gains on financial assets	114,774	197,914	830,867
Total income	450,085	537,174	1,586,138
Selling expenses	(30,193)	(26,802)	(54,015)
Operating expenses	(35,576)	(32,254)	(71,388)
Goodwill amortised and impaired	-	(2,804)	(3,705)
Policyholder benefits	(71,711)	(53,597)	(151,555)
Net fair value adjustment on investment contracts	(114,774)	(197,914)	(830,867)
Change in policyholder liabilities under insurance contracts	(126,378)	(157,700)	(358,943)
Total expenses	(378,632)	(471,071)	(1,470,473)
Surplus from operations	71,453	66,103	115,665
Share of results of associates	553	564	1,965
Surplus before taxation	72,006	66,667	117,630
Taxation	(10,470)	(12,078)	(13,494)
Company tax	(17,087)	(18,074)	(31,743)
Prior year adjustments	-	-	9,152
Withholding tax on dividends	6,617	5,996	9,097
Surplus after taxation	61,536	54,589	104,136
Minority interest	(515)	(336)	(676)
Net surplus for the period	61,021	54,253	103,460
Operating surplus	52,432	54,545	93,057
Investment income on free assets	19,059	14,590	27,602
Taxation	(10,470)	(12,078)	(13,494)
Headline earnings	61,021	57,057	107,165
Goodwill amortised and impaired	-	(2,804)	(3,705)
Net surplus for the period	61,021	54,253	103,460
<i>Headline earnings per share (thebe)</i>	<i>22.49</i>	<i>21.20</i>	<i>39.78</i>
<i>Earnings per share (thebe)</i>	<i>22.49</i>	<i>20.16</i>	<i>38.41</i>
<i>Number of shares in issue</i>	<i>275,684,402</i>	<i>275,684,402</i>	<i>275,684,402</i>
<i>Consolidation of the staff share scheme</i>	<i>(4,322,061)</i>	<i>(6,583,738)</i>	<i>(6,315,878)</i>
<i>Shares used for calculating headline earnings per share</i>	<i>271,362,341</i>	<i>269,100,664</i>	<i>269,368,524</i>

Group Balance Sheet	Unaudited As at 30 Sept. 2004 P'000	Unaudited As at 30 Sept. 2003 P'000	Audited As at 31 March 2004 P'000
ASSETS			
Investments	4,518,767	5,865,722	5,999,364
Intangible assets	16,385	15,655	16,121
Property, plant and equipment	16,183	18,277	16,497
Current assets	211,137	202,303	214,203
Trade and other receivables	204,976	195,411	207,938
Taxation recoverable	2,475	-	-
Cash balances	3,686	6,892	6,265
	4,762,472	6,101,957	6,246,185
CAPITAL, RESERVES AND LIABILITIES			
Share capital and share premium	37,289	36,244	36,055
Reserves	552,972	477,845	517,108
Shareholders' equity	590,261	514,089	553,163
Minority shareholders' interest	3,364	7,326	5,711
	593,625	521,415	558,874
Policyholder liabilities under - insurance contracts	4,042,742	5,458,316	5,567,539
- investment contracts	1,146,589	818,750	1,020,160
	2,896,153	4,639,566	4,547,379
Deferred taxation	7,434	16	7,434
Current liabilities	118,671	122,210	112,338
Trade and other payables	118,671	121,092	112,303
Taxation	-	1,118	35
	4,762,472	6,101,957	6,246,185

Commentary

The directors take pleasure in presenting the unaudited interim results of Botswana Insurance Holdings Limited for the six months ended 30 September 2004.

The Economic Environment

The period under review saw the local economy slow down. Globally, whilst the US economy benefited from a soft Dollar and general consumer optimism, Europe and Japan still remained sluggish. Investment markets showed improvement though no major sustainable growth trends were detected.

The Government in Botswana having renewed their mandate is likely to push for greater public sector accountability and project implementation. This is expected to create some renewed momentum in the local economy as efforts to diversify the economy gathers pace. Globally, the re-elected Government in the US will continue to focus on providing support to the domestic economy whilst trying to unravel the Iraq situation. Concerns in the Middle East will dominate world sentiments as will issues pertaining to the economic growth in the Euro Zone and Japan.

In general, the low inflation and interest rate environment will continue globally; albeit with some pressure from oil prices. Local inflation has remained in check but will be influenced by regional currency trends and indeed price increases from the impact of global oil prices.

Results

The overall group results are satisfactory and bear testimony to the prudent risk management, business planning and sound commercial judgment that has been the hallmark of the group. Headline earnings increased by 7% from last year. Total earnings have increased by 12%. Embedded value increased from P710 million to P809 million after paying a dividend of P44 million. Embedded value of new business for the period is P25 million. Total assets under administration have increased to P6.5 billion an increase of 10% from prior year.

Botswana Life

New business cases and API has increased 12% from prior year. Individual recurring premium increased by 7% and number of policies increased by 9%. Costs are within expectation.

Customer retention remains good, but there are some signs of increased expenditure on consumer goods that exerts pressure on disposable income. Allowance has been made for deterioration in lapse rates in the assumptions following some deterioration at longer duration. The company is taking active steps to ensure that clients appreciate the value of their contracts.

Bifm

Bifm continues to operate in an increased and at times intense competitive environment compounded further by erratic investment markets. Currency issues will dominate portfolio thinking in the shorter term. Efforts to diversify the portfolios and create real returns remain an ongoing challenge as does the ability to customize investment options. It has been a good period for Bifm; all large accounts have been retained. During the period the employ benefits business division of the company was disposed off to maintain independence between asset management and benefits administration. The disposal has not been disclosed as a discontinued operation as the financial effect is not material.

In light of increased risk management and corporate governance, segregated funds under management were set up for certain funds and these have been accounted for off balance sheet. These funds remain under our management. The segregated assets were P1.9 billion at 30 September 2004 compared to P63 million at 31 March 2004.

Accounting Policies and Presentation

The accounting policies adopted for the period comply in all material respects with International Financial Reporting Standards and the Botswana Companies Act except for the accounting standard on business combinations; IFRS 3 which has been applied from 1 April 2004. This statement requires that goodwill be no longer amortised but is subject to an annual impairment test

Corporate Governance

Botswana Insurance Holdings Limited is committed to the highest standards of integrity and ethical conduct in dealings with all its stakeholders. The Board is composed of highly skilled and experienced members from all spectrums of businesses and is assisted by board sub-committees (Audit, Investment and Remuneration) that are responsible for different aspects of governance.

Corporate Social Responsibility

The group makes significant contributions to the welfare and empowerment of the society through its education and sponsorship initiatives.

Prospects

The directors are cautious about the economic outlook in investment markets. However, it is expected that good operational performance will underpin the results for the remainder of the year.

General

Mr A. van Heerden resigned as a director of the group on 30 August 2004.

Dividend Declaration

Notice is hereby given that the Directors have resolved to award an interim dividend of 9 thebe per share. In terms of the Botswana Income Tax Act (Cap 52:01) as amended, withholding tax at the rate of 15% will be deducted by the company from the dividends paid.

The important dates pertaining to the dividends are:

Declaration date	22 November 2004
Last day to register for dividend	14 January 2005
Distribution of dividend cheques	17 January 2005

By order of the Board

MC Letshwiti (Chairman)
RD Vaka and S Gupta (Joint Group Managing Directors)
22 November 2004

Group Statement Of Changes In Equity

	Unaudited 6 months to 30 Sept. 2004 P'000	Unaudited 6 months to 30 Sept. 2003 P'000	Audited Year to 31 March 2004 P'000
Share capital and share premium			
Shares in issue	40,601	40,601	40,601
Consolidation of the staff share scheme	(3,289)	36,244	36,055
Reserves			
Balance at beginning of the year	517,108	448,601	448,601
Income attributable to shareholders	61,021	54,253	103,460
Unrealised investment surplus on shareholder assets	18,143	14,977	27,338
Dividends paid	(44,110)	(39,974)	(60,650)
Foreign currency translation reserve	810	(12)	(1,641)
Balance at end of the year	552,972	477,845	517,108

Group Cash Flow Statement

	Unaudited 6 months to 30 Sept. 2004 P'000	Unaudited 6 months to 30 Sept. 2003 P'000	Audited Year to 31 March 2004 P'000
Cash flows from operating activities	268,701	1,385,938	533,291
Cash utilised in investing activities	(271,280)	(1,384,714)	(534,183)
Cash from financing activities	-	-	1,489
Net increase in cash resources	(2,579)	1,224	597
Cash resources at beginning of the period	6,265	5,668	5,668
Cash resources at end of the period	3,686	6,892	6,265

Changes in value of policyholder liabilities

Under Insurance Contracts

	2004	2003	2004
Opening balance	1,020,160	661,002	661,002
Transfer from the income statement	126,378	157,700	358,943
Other transfers	51	48	215
Closing balance	1,146,589	818,750	1,020,160

Under Investment Contracts

at Fair Value

	2004	2003	2004
Opening balance	4,547,379	3,328,150	3,328,150
Movement for the year	(1,651,226)	1,311,416	1,219,229
Pension and investment deposits	250,858	1,169,286	1,184,215
Fair value adjustment through the income statement	114,774	197,914	830,867
Transfer to segregated funds	(1,586,413)	-	-
Withdrawals	(430,445)	(55,784)	(795,853)
Closing balance	2,896,153	4,639,566	4,547,379

Sensitivities

This section illustrates the effect of different assumptions on the value of in-force business net of cost of capital. The effect of assumption changes in the Financial Soundness Valuation has been included in the value of in-force business. For each sensitivity illustrated, all other assumptions have been left unchanged.

	Value of in-force of capital P'000	Cost of capital P'000	Value before cost of capital P'000	% change P'000
Base value at 30 September 2004	229,194	45,150	274,344	
Lapse increases by 10%	218,701	43,966	262,667	(5)
Future expenses increase by 10%	210,705	45,455	256,160	(8)
Expense inflation increases by 1%	225,041	45,401	270,442	(2)
Mortality experience increases by 10%	227,347	45,154	272,501	(1)
Investment returns decrease by 1%	208,616	51,610	260,226	(9)
Risk discount rate decreases by 1%	248,359	38,842	287,201	8
Risk discount rate increases by 1%	209,580	52,482	262,062	(9)

The sensitivity of the value of new business is as follows:

	Value of new business P'000	Cost of capital P'000	Value before cost of capital P'000	% change P'000
Base value at 30 September 2004	25,680	5,493	31,173	
Lapse increases by 10%	24,038	5,200	29,238	(6)
Future expenses increase by 10%	23,541	5,118	28,659	(8)
Expense inflation increases by 1%	24,503	5,338	29,841	(5)
Acquisition costs increase by 10%	22,928	5,118	28,046	(11)
Mortality experience increases by 10%	25,564	5,472	31,036	0
Investment returns decrease by 1%	23,214	6,279	29,493	(10)
Risk discount rate decreases by 1%	27,498	4,757	32,255	7
Risk discount rate increases by 1%	23,784	6,343	30,127	(7)

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 solvency capital required 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.

	6 months to 30 September 2004 P'000	6 months to 30 September 2003 P'000	Year to 31 March 2004 P'000
Shareholders' net assets, excluding goodwill	579,660	504,874	543,185
Value of in-force	229,194	206,049	229,148
Value before cost of capital	274,344	253,515	270,117
Cost of capital	(45,150)	(47,466)	(40,969)
Embedded value at end of period	808,854	710,923	772,333

	2004	2003	2004
Capital Adequacy Requirement (CAR)	157,581	108,415	152,248
CAR Cover	3.7	4.7	3.6

Embedded value earnings

	2004	2003	2004
Embedded value at end of period	808,854	710,923	772,333
Embedded value at beginning of period	772,333	633,901	633,901
Change in embedded value	36,521	77,022	138,432
Consolidation of the staff share scheme	(1,234)	(6,035)	(1,489)
Dividends paid	44,110	39,974	60,650
Embedded value earnings	79,397	110,961	197,593

These earnings can be analysed as follows:

	2004	2003	2004
Roll forward	53,617	41,659	87,990
Investment return on free assets after tax	34,262	25,920	50,874
Expected return on life business in force	19,355	15,739	37,116
Change over the period	25,780	69,302	109,603
Value of new business	25,680	36,881	63,307
Value at point of sale	24,684	34,580	58,923
Expected return to end of period	996	2,301	4,384
Change in assumptions and methodology	(19,353)	(8,273)	20,271
Experience variations	19,453	40,694	26,025
Total earnings	79,397	110,961	197,593
Value of new business at calculation date	25,680	36,881	63,307
Value before cost of capital	30,177	39,833	67,067
Cost of capital	(5,493)	(5,253)	(8,144)
Expected return to end of period	996	2,301	4,384

Assumptions

The main assumptions used are as follows:

	% p.a.	% p.a.	% p.a.
1. Economic assumptions			
Risk discount rate	13.95	15.00	13.50
Overall investment return (before taxation)	10.90	12.60	10.90
Expense inflation rate	7.45	8.00	7.00

2. Other assumptions

The assumptions for future mortality, persistency and premium escalation were based on recent experience adjusted for anticipated future trends. In particular, allowance has been made for the expected deteriorating mortality as a result of AIDS.

Notes

a) Changes in assumptions and methodology

	P'000	P'000	P'000
Expenses	(3,145)	(4,195)	30,127
Mortality	-	-	(3,281)
Persistency	(2,049)	(975)	(11,177)
Data and methodology changes	(13,089)	-	(20,594)
Total operational	(18,283)	(5,170)	(4,925)
Economic	7,635	(3,103)	6,115
Risk discount rate	(8,705)	-	19,081
Total	(19,353)	(8,273)	20,271

b) Experience variations

	2004	2003	2004
Mortality and morbidity	10,897	10,985	15,573
Persistency	983	8,976	(17,263)
Premium updates	341	300	570
Expenses and commission	(1,150)	11,583	731
Other	4,679	4,877	3,188
Total operational	15,750	36,721	2,799
Investment returns	3,703	3,973	23,226
Total	19,453	40,694	26,025



BOTSWANA INSURANCE HOLDINGS LIMITED

DIRECTORS: MC Letshwiti (Chairman), *RD Vaka, *S Gupta*, (Joint Group Managing Directors), JB Galeforolwe, JABurbidge*, DAKgosietsile, JPRowse*, (*South African *British *Indian * Executive Directors)

BOTSWANA INSURANCE HOLDINGS LIMITED

Incorporated in Botswana, Company Registration Number 90/1818

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