

SWAZILAND ROYAL INSURANCE CORPORATION

Financial Highlights for the Year Ended 31 December 2012

Short-Term Insurance Business Movements

Gross Written Premium (GWP)	↑	0.57%
Investment Income short-term funds	↑	77.08%
Net Earned Premium (NEP)	↑	1.77%
Underwriting Profit	↓	1.05%

	2012	2011	2010	2009	2008
	E000	E000	E000	E000	E000
Gross Written Premium	322 065	320 241	324 766	328 419	293 241
Net Earned Premium	226 102	222 163	226 589	215 991	202 964
Claims net of reinsurance	90 776	91 753	99 698	128 222	121 828
Underwriting profit	67 752	68 470	71 937	29 227	31 288
Investment income (loss)	48 565	27 426	47 177	59 738	(12 206)
Expenses of management	46 945	42 065	40 274	41 199	37 342
Profit before taxation	116 317	95 896	119 113	88 986	19 082
Taxation	(35 036)	(28 919)	(35 848)	(26 845)	(5 978)
Net income after taxation	<u>81 281</u>	<u>66 977</u>	<u>83 265</u>	<u>62 141</u>	<u>13 104</u>
Dividend short-term business	90 000	149 000	41 500	31 100	20 000

Long-Term Assurance Business Movements (Life and Pension)

	2012	2011	2010	2009	2008
	E000	E000	E000	E000	E000
Gross premium- Risk Products	122 228	131 638	89 673	89 702	78 531
Gross premium-Investment Products	19 235	22 173	19 540	19 761	11 189
Net earned (Risk & Investment)	141 463	153 811	109 212	109 463	83 511
Investment income	159 005	81 426	114 478	92 600	7 548
Expenses of management	24 848	21 589	20 313	20 625	21 400
Surplus (loss) for the year	<u>73 111</u>	<u>32 252</u>	<u>37 865</u>	<u>33 007</u>	<u>(12 390)</u>
Dividend long-term business	40 000	11 000	18 500	18 900	Nil
Total dividend declaration	130 000	160 000	60 000	50 000	20 000
Total assets	1 616 166	1 482 354	1 363 225	1 203 769	1 014 818

THE CHAIRMAN'S REPORT 2012

Introduction and overview of 2012

The Swaziland Royal Insurance Corporation's (The Corporation) main business activity is the provision of short-term insurance, life assurance to individuals and pension administration in Swaziland.

For the year 2012, the Corporation reported consistent performance overall, notwithstanding the lethargic performance of the national economy. The Corporation adopted a strategy to focus on classes of business which are attaining risk-adequate premiums. This in the long run has paid off. Since 2004 the Corporation has achieved an unbroken record of profitability through often turbulent market conditions.

The Corporation's delivery of service focuses on the client; an assurance that all legitimate claims shall be paid promptly. A Customer Service Charter was introduced which will enhance management capability of understanding the customer needs and assist us better serve the client. The Corporation intends to increase its range of services with the aim of responding to the changing needs of our clients.

Operating results

Non-Life (short-term) business

During the year to 31 December 2012 The Corporation showed a good increase in operating profits before tax compared to the year to 31 December 2011. Profit before tax was E116 million compared to E95, 9 million in the previous year (21, 3 percent increase). This increase in operating profit before tax was mainly driven by good investment returns and good claims experience.

The non-life (short-term) business continued to deliver profitable results in the face of a depressed economic environment and achieved an underwriting profit of E67, 8 million (2011: E68, 5 million). These results were in the main influenced by:

- A marginal increase in Gross Written Premiums from E320, 2 million in the previous year to E322, 1 million in the year under review.
- Flat increase in claims costs (less than inflation) despite the introduction of Value Added Tax (VAT) on indemnity costs. Claims incurred decreased by 1, 1 percent (E0, 98 million) from E91, 7 million in the previous year to E90, 7 million.

Overall, these results are pleasing as they are in line with our strategy of consistency of results.

Life (long-term) business

Although the Retirement Funds Act 2005 requires that a statutory actuarial valuation be performed on retirement funds, no methodology is prescribed. The statutory valuation basis has therefore been set so that it is equivalent to the published reporting basis.

The excess of the value of assets over liabilities on the published basis for the year under review stood at E62, 1 million compared to E13, 8 million in the previous year. This change in the excess assets can be analyzed as follows:

	31 Dec -12	31 Dec – 11
	E m	E m
Excess assets as at end of reporting period	223.1	161.0
Excess assets as at beginning of reporting period	161.0	147.2
Change in Excess Assets over reporting period	62.1	13.8

The change in excess assets is analyzed as follows

Changes in valuation method assumption	1.0	15.9
Other operating profit	72.1	16.3
Dividend paid	(11.0)	(18.5)
Change in Excess Assets over the reporting period	62.1	13.8

The life insurance business operating profit for the year under review stood at E73, 1 million compared to E32, 2 million in the previous year before payment of dividend. The primary reasons for the increase in operating profit from life insurance business were:

- Large investment profit due to strong investment returns,
- Profit due to rate curve correction and increase in mortality rates used for annuities in payments
- Increased profits on group life and funeral business
- Low claims

Solvency levels and capital adequacy

The Corporation non-life (short-term) insurance business remains well capitalized with strong solvency levels. As at 31 December 2012 the non-life solvency levels stood at **E277, 8 million** after payment of Special Dividend of **E100, 0 million** (2011: E342, 5 million) compared to the minimum industry standard of E90, 4 million (40 percent of net written premium).

The life insurance business is also well capitalized with excess assets over liabilities of E223, 0 million (2011: E161, 0 million). As at 31 December 2012 the SRIC's Capital Adequacy Requirement (CAR) was E91, 7 million (2011: E78, 4 million).

In line with industry's best practice, the Corporation has a policy of maintaining Capital Adequacy Requirement (CAR) of at least twice the Ordinary Capital Adequacy Requirement (OCAR) i.e. free assets of at least E183, 4 million and to pay up to a maximum of 100 percent as dividend of the surplus assets over and above twice OCAR. For the year under review E40, 0 million (2011: E11, 0 million) was paid as dividend from the life insurance business.

Dividend Declaration

I am pleased that the Corporation's improved capital position has enabled the Board to recommend a dividend of E130 million for the year ended 31 December 2012, (2011: E160 million) for payment on 5 June 2013 to holders of Ordinary Shares on the register at close of business on 6 May 2013. The total dividend of E130 million is made up of:

- Normal dividend of E120 million: E80, 0 million non-life (short-term) and E40, 0 million from life business. (2011: E60 million: E49, 0 million non-life (short-term) and E11, 0 million life (long-term) business.
- Special dividend of E10 million (2011: E100 million) from non-life (short-term). The special dividend is to align our solvency level requirements with our risk appetite policy.

Valuation of the Life Fund

The Actuarial valuation of the life (long-term) insurance business as at 31 December 2012 shows that the value of assets exceeds the value of liabilities by E223, 1 million (2011: E161,0 million). The excess of assets over liabilities of E223, 1 million (2011: E161, 0 million) gives a realistic and also prudent picture of the accumulated profits of the Corporation's life operations from inception to the valuation date including the effect of capital injections and transfers to shareholders.

The primary reasons for this increase in operating profit are:

- Large investment profit due to strong investment returns
- Profit due to interest rate curve correction and increase in mortality rates used for annuities in payment
- Increased in profit on group life and funeral, and single premium life term assurance business, due to increased business volumes and low claims

Bonus Declaration to Policyholders and Pension Schemes

Bonus rates recommended have been set broadly in line with the investment returns achieved over the year for Lilunga, Insika Savings and Pension Fund business. Terminal bonuses on Conventional With-Profit policies were increased. The bonus stabilization reserve was positive for all products in 2011 and has remained positive in 2012.

The bonus recommendation is a significant part of the responsibility of the actuary. The factors which need to be taken into account include:

- Bonus supported by current year surplus.
- Policyholder expectations of current and future bonus.
- Company policy regarding stabilization of bonus rates; and
- Solvency position.
- Pension schemes should receive a return that is a fair reflection of the investment return achieved on their funds.
- Charges should be made to the fund to allow for investment management, any subsidization of administration costs and any cost of investment guarantees.
- It is desirable to build up a non-vested account and a bonus stabilization reserve to control the cost of guarantees.
- Comparison is also made with other providers of Deposit Administration (DA) contracts to ensure that rates declared are competitive.

Bonus rates declared for policy holders were increased in line with the investment returns achieved over the year. The bonus rates declared for 2012 were as follows.

- Pension Funds (Deposit Administration contract) 15 percent (2011: 7 percent), which still results in an increase of the bonus stabilization reserve over the year of E15, 7m (9, 5% of fund value)
- Lilunga and Insika Savings policies 17, 5 percent (2011: 8 percent)

Embedded Value

The Embedded Value of an insurance Company is a commonly used calculation to estimate the economic value for monitoring or sale. It is comprised of two major components:

- The Net Asset Value of the Corporation
- The Value of the In Force Business

The Net Asset Value of the Corporation is derived from the financial statements.

The Value of In Force Business (VIF) of the Corporation represents the present value of the future profits arising from existing in-force insurance business of the Corporation. The present value of future profit is stated net of tax and the cost of holding the minimum prescribed capital adequacy requirements (CAR). The VIF excludes any goodwill that may be attributable to the Corporation as a result of the value of future new business or the expectation of the achievement of additional operational efficiencies in future years.

The total embedded value of SRIC's Life business as at 31 December 2012 was E255, 1 million, compared to E236, 5 million in the previous year. This calculation was conducted broadly in accordance with the general guidance contained in PGN107 issued by the Actuarial Society of South Africa (a standard which does not yet obtain in Swaziland).

New tax legislation on life insurers has been introduced in Swaziland in 2012. There is still uncertainty on how this will be implemented. The VIF calculations in 2012 makes allowance for expected future tax on investment income as well as tax on operating profits based on a tax rate of 30 percent. The 2011 VIF calculation excludes tax as the new legislation was not effective in that year.

Strategic priorities

The Corporation is committed to providing world class service to its customers and building on its history of being of service to the Swazi Nation for over 40 years. In that regard the Corporation continue to focus on the following areas of its strategy.

- Customer service
- Effective underwriting considerations
- Good risk management
- Optimal capital utilization
- Cost containment and efficiencies

This approach has served the Corporation well and it remains committed to it into the future. The aim is to deliver solid and consistent performance for shareholders, policyholders and to sustain profitability.

Corporate Governance

Collectively, the Corporations' Directors have a wide range of business-related expertise, as well as significant experience in insurance, financial and commercial related activities. Directors are appointed on the basis of skill, acumen, experience and actual level of contribution on the activities of the Corporation.

Sound governance principles remain one of the top priorities of the Corporation's Board and Management. All directors are non-executive. The Board has set-up sub-committees comprising Board Members to which Management reports. The Board and the sub-committees meet at least once every quarter or more regularly as the business of the Corporation may demand. The sub-committees are: the Audit Committee, Investment Committee, Executive Committee and the Remuneration Committee. Various external experts are also engaged to provide additional independent expertise to the Board. These experts include auditors; both external and internal, actuaries, risk managers, reinsurance consultants and investment managers.

Corporate Code of Conduct

The Corporation is committed to:

- Good business practice, integrity and ethical trading with customers and intermediaries.
- Carrying-on business through fair commercial competitive practices.
- Being responsive towards environmental and social sustainability programmes.
- Supporting Social responsibility programmes.

A Word of Appreciation to SRIC's Intermediaries

We continue to benefit from the expertise of our Brokers and Agents. About 85% of our business is transacted through Brokers and we are continually grateful for their support.

A Word of appreciation to the Insuring Public

A special word of appreciation goes to all our valued clients for their trust, partnership and patronage.

Transparent selling of SRIC's products

The Corporation markets and sells a wide range of products and services. These products include:

- Life assurance, (both group and individual) pension and investment savings.
- Fire and Engineering.
- Marine.
- Motor.
- House Owners and House Holders.

Our philosophy is to sell and market these products in an honest and transparent way, which will build trust with our customers, our more than adequate capitalization ensures that the policyholders will have a peace of mind that the Corporation will be able to meet his/her claim in the event of loss. The promise for prompt settlement of claims is the promise we have been able to meet over the years irrespective of the size of the claim.

The Board

The term of office of the Board came to an end in December 2012. I wish to take this opportunity to thank my Board colleagues for their enormous contributions and dedication to the service of SRIC during their tenure. I also wish to express my sincere appreciation for the continued dedication of the Corporation's employees during 2012.

New shareholders.

During the year, one of our shareholders Swiss-Re sold its 13% shareholding to the Public Service Pension Fund (6.5%) and another 6.5% to a consortium of local businesses. I express the gratitude of the Board to the service provided by the representative of Swiss-Re on the Board and the business expertise and skill Swiss-Re imparted to our Staff. I welcome the new Shareholders to SRIC and Mr. Sydney Place who joined the Board representing the new Shareholders.

The Directors and Management are confident that the Corporation has a good strategic plan and has adequate resources to deliver good results in both long-term and short-term sections of the insurance industry in the foreseeable future.

Mr. Kenneth Mbuli
Chairman

15 May 2013