

SWAZILAND ROYAL INSURANCE CORPORATION

Financial Highlights for the Year Ended 31 December 2013

Short-Term Insurance Business Movements

Gross Written Premium (GWP)	↑	14.62%
Investment Income short-term funds	↑	66.36%
Net Earned Premium (NEP)	↑	4.45%
Underwriting Profit	↑	37.62%

	2013	2012	2011	2010	2009
	E000	E000	E000	E000	E000
Gross Written Premium	369 180	322 065	320 241	324 766	328 419
Net Earned Premium	236 179	226 102	222 163	226 589	215 991
Claims net of reinsurance	67 103	90 776	91 753	99 698	128 222
Underwriting profit	93 246	67 752	68 470	71 937	29 227
Investment income	80 796	48 565	27 426	47 177	59 738
Expenses of management	52 862	46 945	42 065	40 274	41 199
Profit before taxation	124 500	116 317	95 896	119 113	88 986
Taxation	(30 038)	(35 036)	(28 919)	(35 848)	(26 845)
Net income after taxation	<u>94 462</u>	<u>81 281</u>	<u>66 977</u>	<u>83 265</u>	<u>62 141</u>
Dividend short-term business	140 000	90 000	149 000	41 500	31 100

Long-Term Assurance Business Movements (Life and Pension)

	2013	2012	2011	2010	2009
	E000	E000	E000	E000	E000
Gross premium- Risk Products	139 546	122 228	131 638	89 673	89 702
Gross premium-Investment Products	27 699	19 235	22 173	19 540	19 761
Net earned (Risk & Investment)	167 245	141 463	153 811	109 212	109 463
Investment income	109 960	159 005	81 426	114 478	92 600
Expenses of management	28 730	24 848	21 589	20 313	20 625
Surplus (loss) for the year	<u>74 738</u>	<u>73 111</u>	<u>32 252</u>	<u>37 865</u>	<u>33 007</u>
Dividend long-term business	23 000	40 000	11 000	18 500	18 900
Total dividend declaration	163 000	130 000	160 000	60 000	50 000
Total assets	1 770 997	1 616 166	1 482 354	1 363 225	1 203 769

THE CHAIRMAN'S REPORT 2013

Introduction and overview of 2013

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 2013, 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 2013 The Corporation showed a good increase in operating profits before tax compared to the year to 31 December 2012. Profit before tax was E125 million compared to E116 million in the previous year (7, 8 percent increase). This increase in operating profit before tax was mainly driven by good underwriting results due to good claims experience and good investment returns.

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 E93, 2 million (2012: E67, 8 million). These results were in the main influenced by:

- A 14, 62 percent increase in Gross Written Premiums from E322, 1 million in the previous year to E369, 1 million in the year under review.
- A 26, 07 percent decrease in claims incurred net of reinsurance. Claims incurred decreased by E23, 67 million from E90, 7 million in the previous year to E67, 1 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 E15, 5 million compared to E62, 1 million in the previous year. This change in the excess assets can be analyzed as follows:

	31 Dec -13	31 Dec – 12
	E m	E m
Excess assets as at end of reporting period	238.6	223.1
Excess assets as at beginning of reporting period	223.1	161.0
Change in Excess Assets over reporting period	15.5	62.1

The change in excess assets is analyzed as follows

Changes in valuation method assumption	(3.1)	1.0
Other operating profit	48.6	72.1
Dividend paid	(30.0)	(11.0)
Change in Excess Assets over the reporting period	15.5	62.1

The life insurance business published operating profit for the year under review stood at E45, 5 million compared to E73, 1 million in the previous year before payment of dividend. The primary reason for the decrease in the published operating profit from life insurance business was the introduction of a tax on the profit of life insurance business of E25, 9 million.

Solvency levels and capital adequacy

The Corporation non-life (short-term) insurance business remains well capitalized with strong solvency levels. As at 31 December 2013 the non-life solvency levels stood at **E265, 1**million (2012: E277, 8 million) compared to the minimum industry standard of E118 million (50 percent of net written premium).

The life insurance business is also well capitalized with excess assets over liabilities of E238, 6 million (2012: E223, 1 million). As at 31 December 2013 the SRIC's Capital Adequacy Requirement (CAR) was E97, 3 million (2012: E91, 7 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 E194, 6 million (2012: E183, 4 million) and to pay up to a maximum of 50 percent as dividend of the surplus assets over and above twice OCAR. For the year under review E23, 0 million (2012: E40, 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 E163 million for the year ended 31 December 2013, (2012: E130 million) for payment on 8 July 2014 to holders of Ordinary Shares on the register at close of business on 18 June 2014. The total dividend of E163 million is made up of:

- Normal dividend of E140 million non-life (short-term), (2012: E90 million); and E23 million from life business (long-term). (2012: E40 million):

Valuation of the Life Fund

The Actuarial valuation of the life (long-term) insurance business as at 31 December 2013 shows that the value of assets exceeds the value of liabilities by E238, 6 million (2012: E223,1 million). The excess of assets over liabilities of E238, 6 million (2012: E223, 1 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.

Summary of assets and liabilities: Statutory Basis

	31 Dec -13	31 Dec – 12
	E m	E m
Total value of assets, net of reinsurance	1 223.5	1 .94.1
Total value of liabilities as per balance sheet	985.0	871.1
Value of policy liabilities as per balance sheet, net of reinsurance	930.0	838.2
Current and other liabilities as per balance sheet	55.0	32.9
Excess Assets	238.6	223.1
Capital Adequacy Requirement (CAR)	97.3	91.7
Ratio of Excess Assets to CAR	2.5	2.4

The Published liabilities are split between Investment business and Insurance business, as per IFRS4 guidelines, in the case of Swaziland Royal Insurance Corporation, the only Investment business is the Employee Benefit Deposit Administration business. The split is as follows:

	31 Dec -13	31 Dec – 12
	E m	E m
Gross Actuarial Liabilities - Investment Business	205.5	165.1
Gross Actuarial Liabilities - Insurance Business	726.8	675.1
Total Gross Actuarial Liabilities	932.3	840.3
Less Reinsurance	-2.3	-2.1
Total Net Actuarial Liabilities	930.0	838.2
Current Liabilities	55.0	32.9
Total Liabilities	985.0	871.1

Bonus Declaration to Policyholders and Pension Schemes

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 in line with the investment returns achieved over the year. The bonus rates declared for 2013 were as follows.

- Pension Funds (Deposit Administration contract) 15 percent (2012: 15 percent), which still results in an increase of the bonus stabilization reserve over the year to E18, 8m (9.1% of fund value) 2012: E15, 7m.
- Lilunga and Insika Savings policies 13, 4 percent (2012: 17, 5 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 2013 was E292, 9 million, compared to E255, 1 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).

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

Mr. Munetsi resigned from the Board on 30 September 2013 and Mr. E. Paul was appointed on 1 November 2013. 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 2013.

Tribute to Mr. ZR Magagula.

Mr. ZR Magagula retired as General Manager of the Corporation at the end of 2013, having served the Organization for 25 years, 16 of which he was the General Manager. We pay special tribute to him for his enormous contribution to the Corporation during his tenure and wish him well in his endeavors. The contribution of Mr. Magagula speaks for itself. The Corporation declared profits for 15 years out of the 25 years he has been at the helm.

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

30 May 2014