Kenya's Listed Insurance Companies Analysis

Cytonn H1'2017 Insurance Sector Report

"Sustaining Profitability in an Era of Heightened Regulation"

16th October, 2017

Table of Contents

I. Overview of the Firm

What We Stand For

Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs

Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations

Our Values

People
Passionate and self-driven people who thrive in a team context

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

Strategy is straightforward – just pick a general direction and implement like hell

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn	Over Kshs. 82 billion worth of projects under mandate	**5**	Five offices across 2 continents	**250**	Over 250 staff members	**10**	10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

Our Business

Where We Operate

Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS

Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Cytonn INVESTMENTS

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions	●	●	
Regular Investment Plan • Education Investment Plan • Regular Investment Solution • Co-op Premier Investment Plan • Land Investment Plan	●	●	●
Real Estate Development • Real Estate Developments • Sharpland	●	●	●

Our People

If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

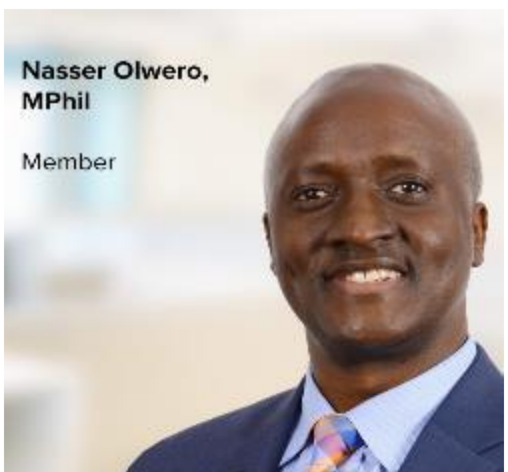
— Patrick Lencioni

We are focused on one agenda:

THE CLIENT

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.



Board of Directors, continued …

Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu, CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Dr. Nancy Asiko Onyango, DBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Rose Kimotho, M.B.S
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Rose Kimotho, M.B.S
- Patricia N. Wanjama, CPS

II. Economic Review and Outlook

Kenya Economic Review

Exchange rate has turned to neutral from negative. Of the 7 indicators we track, 1 has improved the remaining 6 have remained relatively unchanged in 2017 pointing to a stable outlook

Macro-Economic Indicators	2017 Expectations	2017 YTD Experience	Going Forward	Outlook-Beginning of 2017	2017 Outlook
GDP	GDP growth of 5.4% - 5.7% in 2017	GDP growth for Q2'2017 came in at 5.0%, compared to 6.3% in Q2'2016, slowed down by a 1.7% decline in growth in agriculture, and financial intermediation that slowed to a growth of 4.3% from 8.1% recorded in Q2'2016	GDP growth is expected to stabilize in the remainder of 2017, from the depressed 5.0% experienced in H1'2017, and come in at 4.7% - 5.2%, despite the depressed rainfall witnessed during the long rains season between March and May, which has served to ease the food shortage in the country	**Neutral**	**Neutral**
Interest Rates	A stable outlook on interest rates in 2017, with the CBR maintained at 10.0%	The CBK has maintained the CBR at 10.0%. Domestic borrowing is expected to pick up in the coming weeks, with improved liquidity levels in the market, brought about by heavy maturities of government securities, and hence we don't expect the government to be under pressure to meet its borrowing targets for the fiscal year 2017/18	The interest rate environment is expected to remain relatively stable, with the CBK not accepting high yields on treasury securities and the MPC maintaining the CBR at 10.0%	**Neutral**	**Neutral**
Inflation	Expected to average above the 2.5% - 7.5% government target	Inflation declined to 7.1% in the month of September from 8.0% in August, on account of improved food supply to urban centers	We expect the inflation rate to stabilize going forward but to average above the 7.5% upper bound government target in 2017	**Neutral**	**Neutral**
Currency	Shilling to depreciate against major currencies	The shilling has depreciated by 0.7% against the dollar YTD, having appreciated by 1.0% over the last two months, with the 1.0% appreciation primarily driven by dollar inflows from investors abroad into the local debt and equity markets, amid cheap market valuations and a relatively stable business environment, brought about by a non-violent election	We expect the currency to remain relatively stable against the dollar due to a weaker USD in the global markets and It is also important to note that the CBK has sufficient reserves (USD 7.5 bn - equivalent to 5.0 months of import cover) to support the shilling in the short term	**Negative**	**Neutral**

Kenya Economic Review

Exchange rate has turned to neutral from negative. Of the 7 indicators we track, 1 has improved the remaining 6 have remained relatively unchanged in 2017 pointing to a stable outlook

Macro-Economic Indicators	2017 Expectations	2017 YTD Experience	Going Forward	Outlook – Beginning of 2017	2017 Outlook
Corporate Earnings	Corporate earnings growth of 8.0% in 2017 due to lower earnings for commercial banks attributed to the cap on interest rates	Insurance firms have recorded a weighted average decline in core EPS of 5.6% in H1'2017, compared to an average growth of 69.4% in H1'2016	We still expect corporate earnings to be worse than 2016, weighed down by the Financial Services sector, owing to slower private sector credit growth at 1.6% as at August and the effects of the cap on interest rates	**Neutral**	**Neutral**
Investor Sentiment	Foreign investors to demand higher premiums due to political risks posed by elections and economic risk due to the planned rate hikes by the US Fed	Investor sentiment has been high, with foreign investors entering the market in search of attractive valuations, amid a relatively peaceful election period	Political and economic risks on frontier markets still remains a risk. However, we expect long term investors to enter the market seeking to take advantage of the attractive valuations	**Neutral**	**Neutral**
Security	Expect the government to put initiatives in place to ensure improved security. However, the 2017 election remains a challenge	In January, the U.S. Department of State issued a travel warning regarding threats by Al-Shabaab on the Somalia border, coastal and north-eastern counties. In March, the U.K government issued a warning due to security concerns in parts of Laikipia County	Security is expected to be tight during and after the elections period, with the government expected to keep this in check. However, uncertainty still exists due to the ongoing elections	**Neutral**	**Neutral**

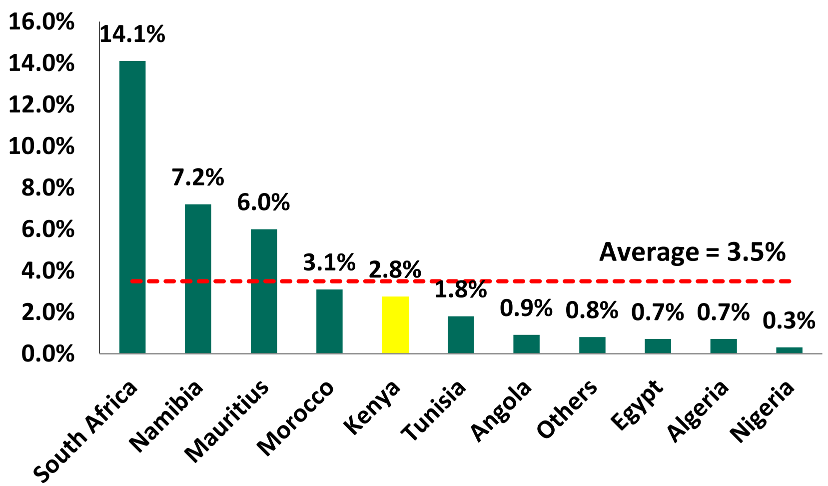
III. Kenya Insurance Sector Overview

Kenya's Insurance Sector Overview

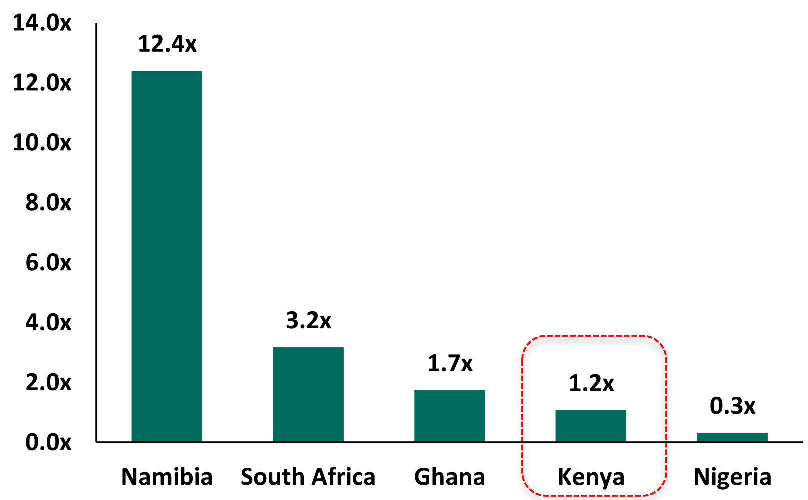
Kenya currently has 55 insurance companies regulated by the Insurance Regulatory Authority

- In Kenya there are a total of 55 insurance companies, 3 reinsurance companies and 206 insurance brokers. There are a total of 8,123 insurance agents in Kenya. The Insurance Regulatory Authority (IRA) is the regulator of all insurance companies in Kenya, with a mandate to regulate, supervise and develop the insurance industry in Kenya
- The minimum paid-up capital have been set at Kshs. 400.0 mn, Kshs 600.0 mn and Kshs 1.0 bn for the life, general and reinsurance business
- Kenya's insurance penetration stands at 2.8% compared to Africa's insurance penetration rate average of 3.5%
- Kenya's ratio of insurance companies to total population stands at 1.2x, with 55 insurers serving 47 mn people, compared to South Africa's 175 for 55 mn, Ghana's for 49 for 28 mn, Nigeria's 60 for 186 mn and Namibia's 31 for 2.5 mn

Insurance Penetration – Africa 2016



Insurance Companies to Total Population



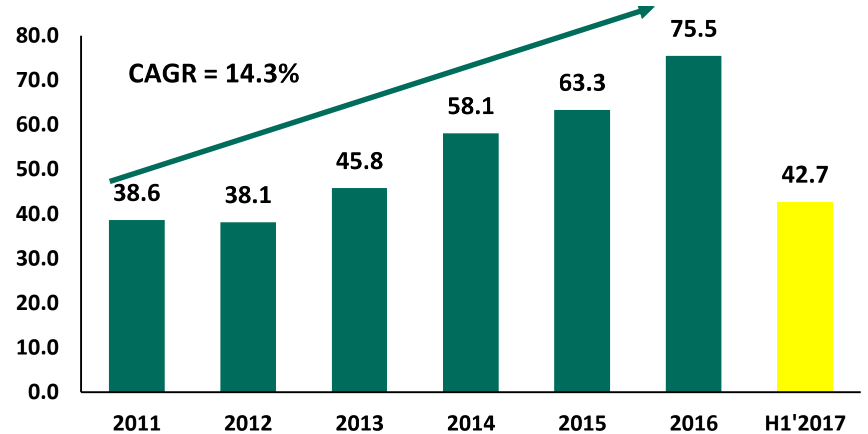
Source – Cytonn Research

Growth in the Insurance Sector

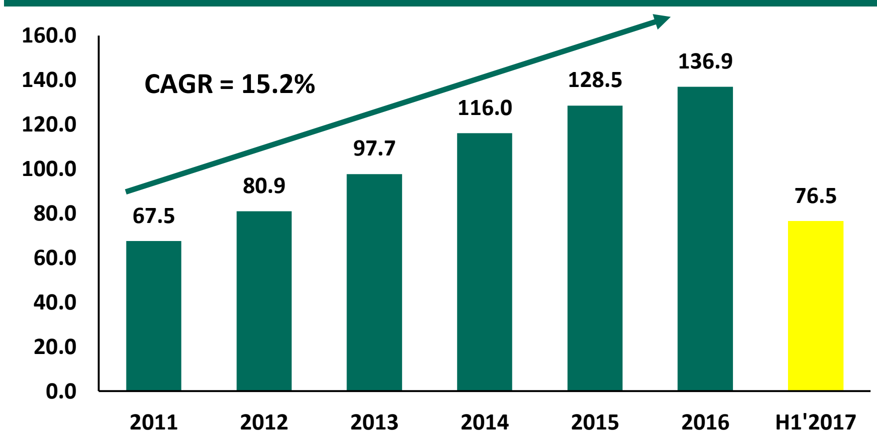
Premiums continue to register strong growth, with growth in Life business premiums outpacing General business in H1'2017

- The Kenya Insurance Balance sheet stood at Kshs 564.4 bn as of H1'2017, from Kshs 501.6 in H1'2016, recording a 12.5% y/y growth
- Total gross premiums stood at Kshs 119.2 bn as at H1'2017, with general business accounting for 64.2% of the total gross written premiums
- Gross reinsured premium accounts for 19.5% of the total industry written premiums. The industry Retention Ratio for the life business stands at 92.5% while the general business stands at 73.8%
- General business has registered a much stronger 6 year average growth in premiums, posting a 15.2% CAGR compared to 14.3% growth in Life business. However, in H1'2017, Life business registered a stronger growth of 26.1%, while general business registered a growth of 6.3%

Gross written premiums – Life business (KES bn)



Gross written premiums – General business (KES bn)

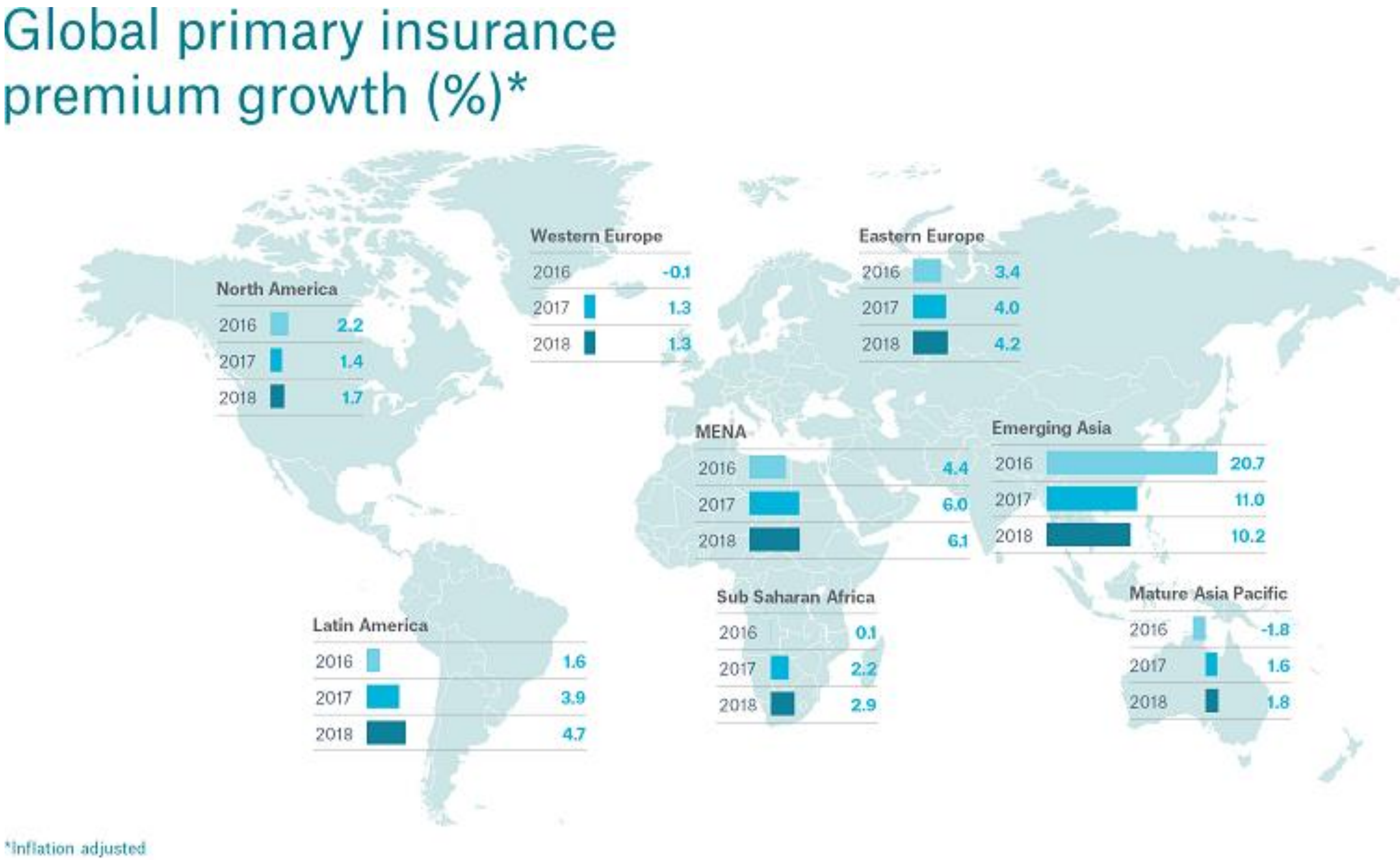


Source: Insurance Regulatory Authority H1 '2017 Insurance Report

Cytonn INVESTMENTS

Global Insurance Growth

Sub-Saharan Africa ranks behind most of the regions on premium growth globally



Source: Swiss Re Economic Research & Consulting for 2015

Kenya Insurance Sector – Global Ranking Comparison

Kenya ranks at par with global players in most metrics, despite low penetration. However, in terms of combined ratio – we are worse off, showing the poor profitability of the core insurance business in Kenya

Name	P/B	P/E	ROE	Dividend Yield	Loss Ratio	Combined Ratio	Country
Wafa Assurance	3.3x	20.2x	16.7%	2.5%	67.3%	84.4%	Morocco
Sampo OYJ	2.2x	15.5x	14.5%	5.1%	63.7%	85.8%	Finland
China Pacific Insurance	2.0x	21.4x	9.8%	2.3%	61.2%	99.2%	China
Fairfax Financial Hldgs Ltd	1.4x	19.3x	7.5%	2.0%	59.9%	94.9%	Canada
Zurich Insurance Group AG	1.3x	12.8x	10.4%	6.1%	67.1%	98.5%	Switzerland
Allianz SE-REG	1.3x	11.7x	11.2%	4.0%	64.9%	93.7%	Germany
Porto Seguro SA	1.2x	9.5x	13.6%	4.3%	65.7%	88.0%	Brazil
Aviva PLC	1.2x	31.8x	3.8%	4.8%	69.2%	101.1%	Britain
Assicurazioni Generali	1.0x	11.7x	8.7%	5.0%	65.1%	62.5%	Italy
AXA SA	1.0x	10.9x	8.7%	4.5%	69.5%	96.5%	France
American International Group	0.8x	37.5x	(0.3%)	2.1%	64.4%	98.3%	United States
Select Global Average	**1.5x**	**18.3x**	**9.5%**	**3.9%**	**65.3%**	**91.2%**	
Kenya Average (Listed)*	**1.3x**	**7.5x**	**11.4%**	**1.6%**	**69.1%**	**126.1%**	

** - Metrics for Kenyan listed insurance companies only.*

Source: Cytonn Research, Bloomberg

Cytonn INVESTMENTS

Insurance Sector Growth Drivers

Merging mobile technology and innovation with insurance services is key to driving the sector, with mobile penetration in Kenya currently at 88.7%

1) **Technology and Innovation**: The industry players continue to innovate products while leveraging on technology to remain competitive. Effective 1st January 2017, the Association of Kenya Insurers (AKI) made it mandatory for commercial imports to be insured locally and all insurance companies interested in offering marine insurance to offer it through a digital platform. A number of insurers have since launched online marine insurance portals including Britam, Jubilee and Sanlam. AON Kenya also recently launched a new cyber liability insurance policy

2) **Adoption of Alternative Distribution Channels:** Insurance companies have been dynamic and fast in adopting new alternative channels for both distribution and premium collection. With at least 2/3 of the countries' population having access to banking services, improved agency networks through avenues like banc-assurance will greatly shape the future of the sector

3) **Regional Expansion**: Given the low penetration rate in the region, global insurance companies have moved into the region to try and widen their customer base. However, we hold the view that Kenya has remained under-tapped and more emphasis should be put in growing insurance penetration in Kenya

4) **Growth of the Middle Class**: In a region with one of the fastest population and economic growth rates, the rise in disposable income is a great driver for the sector. Demand for insurance products and services has grown, for instance, motor insurance, driven by the high rate of car importation into the country recently

Recent Developments in the Insurance Sector

Insurers have adopted Gross Premium Valuation method in accounting for long-term insurance liabilities as opposed to the previously used Net Premium Valuation method

1) **Change in Valuation Methodology:** IRA required all insurers to adopt the Gross Premium Valuation (GPV) of the long-term insurance liabilities as from FY'2016 as opposed to the previously used Net Premium Valuation (NPV) methodology, necessitated by the insurance Act (Cap 487) and amendments to the Finance Act 2015. While NPV method led to higher reserving by overestimating insurance liabilities, GPV method increases the accuracy of providing for future claims thus reducing provisions and making the companies more profitable
2) **Adoption of the Risk Based Supervision (RBS)**: The IRA has introduced a new capital adequacy assessment framework based on the nature of business carried out by the insurers to try and match the risk activities of organizations to their core-capital. In addition, the Insurance Amendment Bill, 2016 seeks to provide for licensing and regulation of *Takaful* insurance business in Kenya
3) **Diversification of Investments:** Insurance companies in Kenya have actively ventured into the real estate segment particularly in the office space segment with the Britam and UAP towers coming up last year. The adoption of asset management by CIC and Sanlam has also seen the sector further diversify revenue streams aiming to grow their investment incomes
4) **Development and repackaging of new products:** New products have also come into the market to serve specific needs of customers. Such products include the Lengo Education and Savings Plan by UAP-Old Mutual and new cyber liability insurance policy by AON Kenya
5) **Innovative Channels of Distribution:** Insurance companies have come up with alternative channels of distributing their products, including partnering with banks through bancassurance and the introduction of premium payments through mobile channels

Insurance Sector Outlook

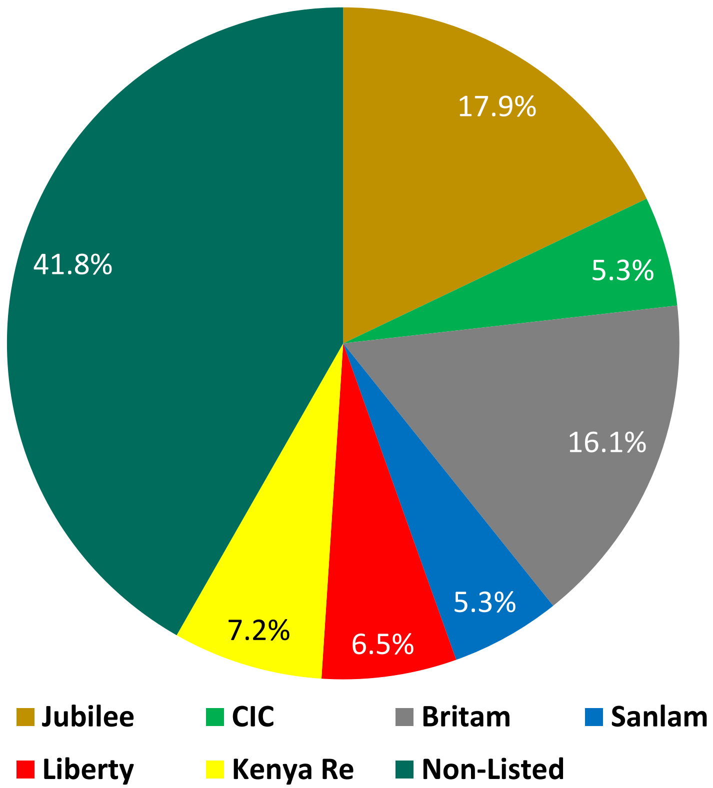
We expect the increased regulation and new capital requirements to lead to consolidation in the insurance sector

- **Mergers & Acquisitions:** We expect consolidation in the sector given the amended Insurance Act which came into effect in June and has adopted a risk-based capital adequacy system, with insurers covering high-risk businesses forced to raise their capital levels
- **New Products Targeting Specific sectors:** With increased level of oil exploration and mining activities in the country, we expect insurance players to come up with products targeting these new sectors
- **Devolved Government:** With the establishment of a devolved system of governance, we expect insurance uptake to increase at the county level, with (i) county governments taking up insurance services, and (ii) increased economic activity in the county level, driven by more economic activities at the county level
- **Increased Regulation:** Following the new Capital Adequacy guidelines that introduced the concept of Tier I and Tier II capital, capital can only be invested in Government bonds, Treasury bills, deposits, cash and cash equivalents that constitute Tier I capital. This will significantly lower participation of Insurance companies in the Corporate Bonds market, as corporate bonds are not eligible investments for Tier I Capital. The Risk Based Supervision framework will also prompt Insurance companies to assess their risk appetite as the minimum capital requirements will largely be based on their appetite for risk

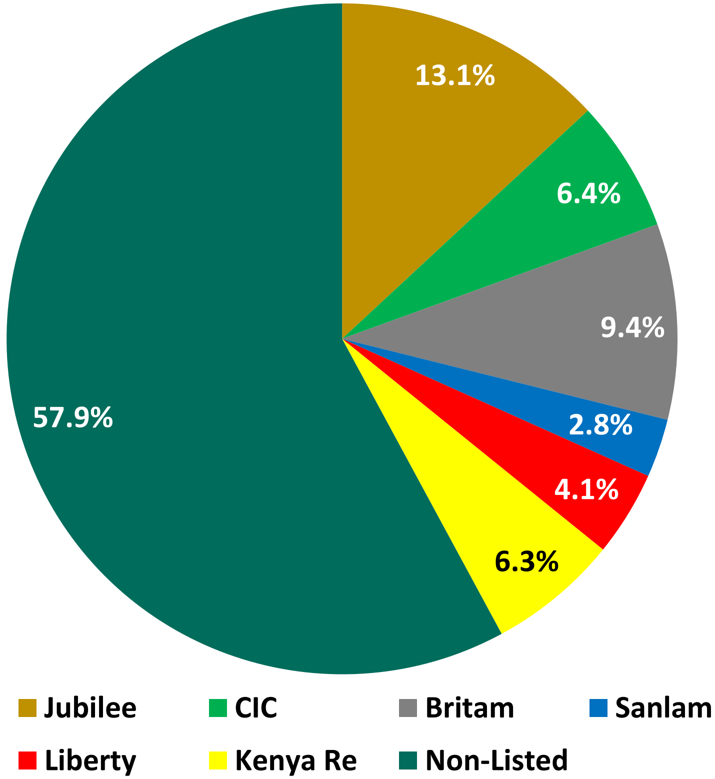
Insurance Sector Market Share – Total Assets and Gross Premiums

Non listed insurance companies, with 41.8% of industry assets, control 57.9% of gross premiums

Total Assets Market Share



Gross Earned Premiums Market Share



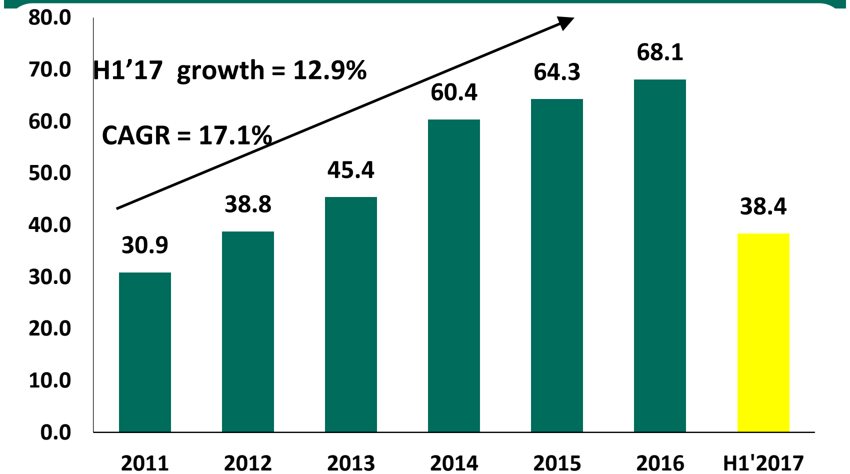
Non listed insurance companies are more efficient in asset utilization to derive premium growth – they have 41.8% of assets, and have 57.9% of premiums. In the listed segment, CIC Group is more efficient in asset utilization to derive premium growth with 5.3% of assets, and have 6.4% of premiums

Source – IRA, as at September 2017

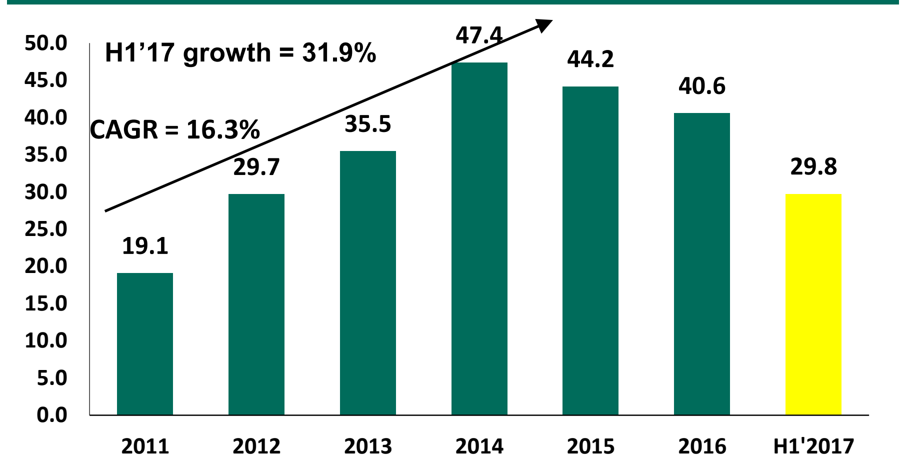
Listed Insurance Sector Metrics

The insurance sector continues to register robust growth in terms of premiums, assets and equity, despite net claims that were declining from the 2014 peak increasing in H1'2017 by 31.9%

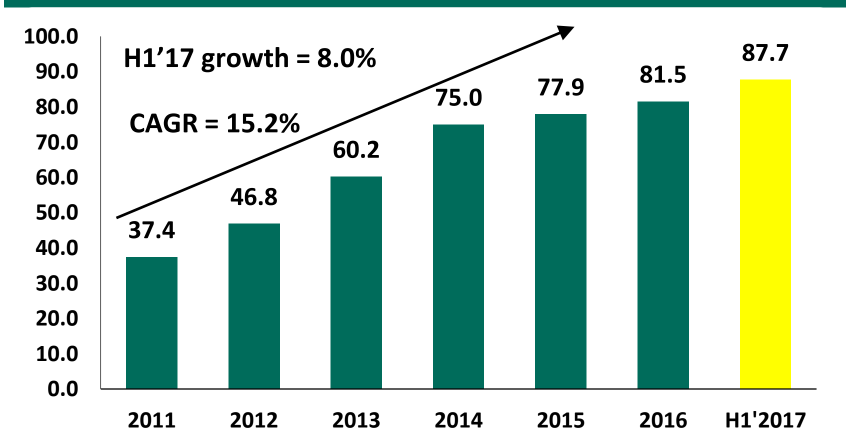
Net premiums (Kshs Bn)



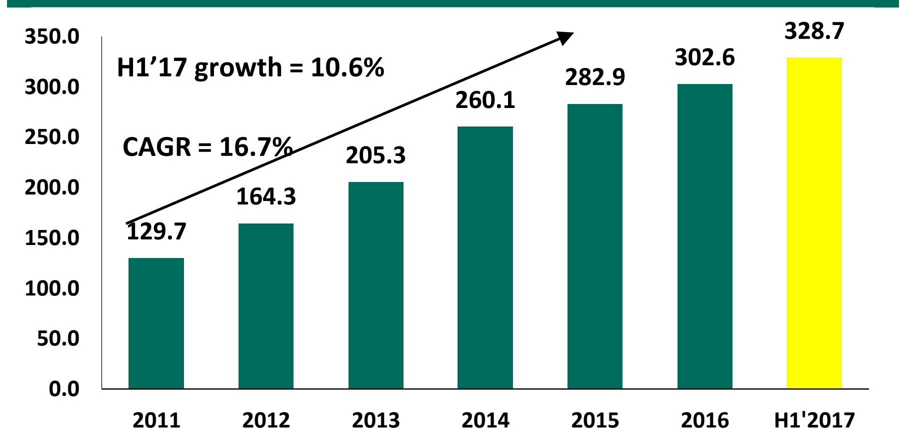
Net Claims (Kshs Bn)



Shareholders Equity (Kshs Bn)



Total Assets (Kshs Bn)



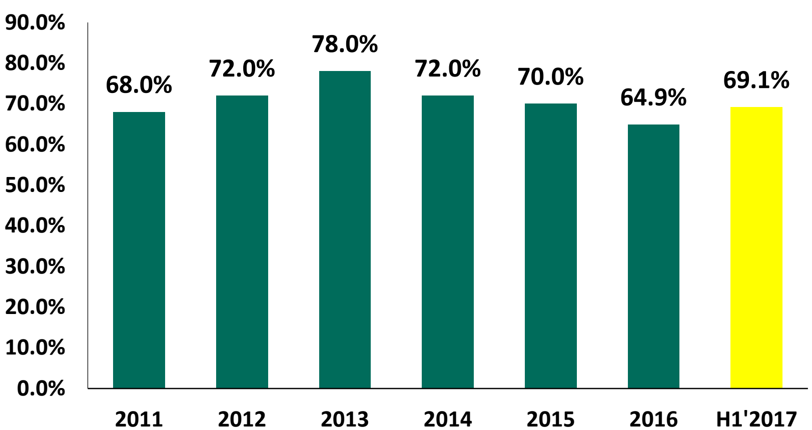
Source: Company Filings

Cytonn INVESTMENTS

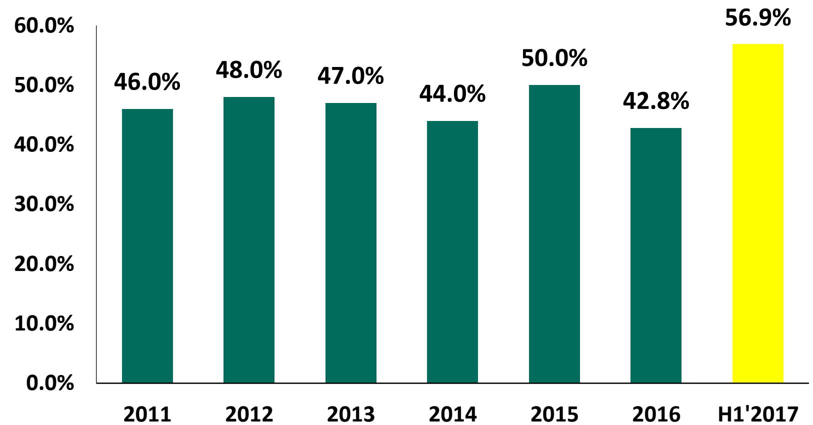
Listed Insurance Sector Metrics, continued…

Loss ratios remain under control, however expense ratios are at a 6 year high. In addition, solvency ratios are declining on the back of asset growth outpacing equity growth

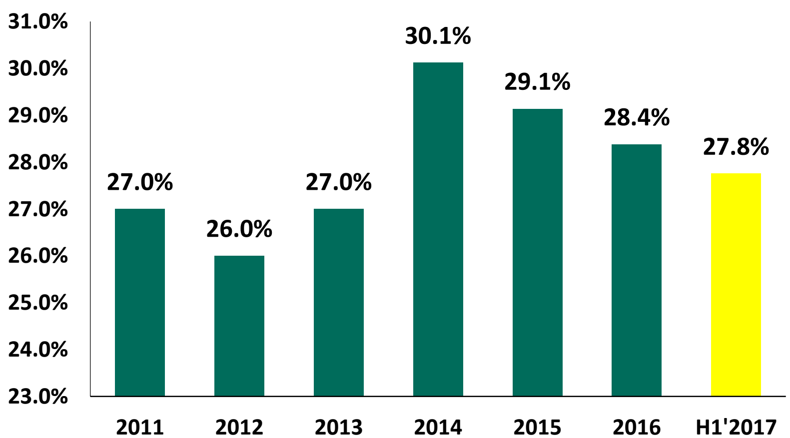
Loss Ratio (%)



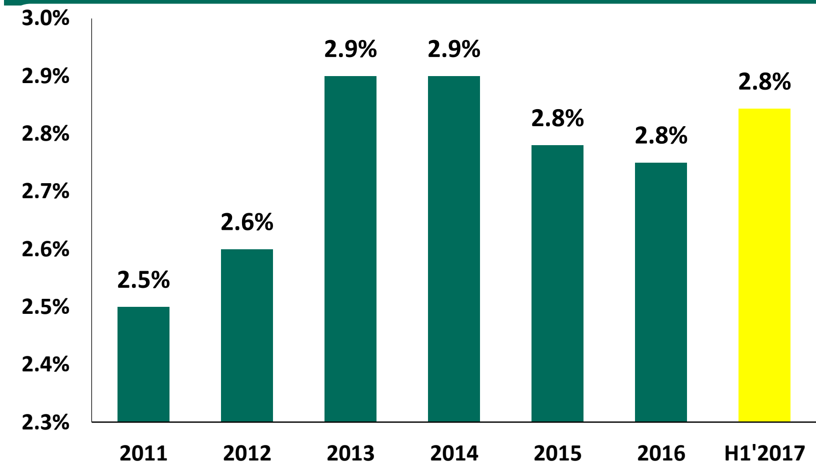
Expense Ratio (%)



Solvency Ratio (%)



Insurance Penetration in Kenya



Source: Company Filings

Cytonn INVESTMENTS

Insurance Sector Multiples

Kenya's Insurance sector is trading at an average P/TBV of 1.3x and a PE of 7.5x

Insurance	Share Price*	No. Of Shares Issued (Bn)	Market Cap (Bn)	P/TBV	P/E
CIC Group	5.4	2.1	11.4	**1.5x**	8.9x**
Britam Holdings	14.1	2.5	35.8	**1.4x**	16.1x
Jubilee Holdings	479.0	0.1	31.6	**1.4x**	7.9x
Liberty Holdings	12.5	0.5	6.7	**1.2x**	10.0x
Sanlam Kenya	29.0	0.1	4.2	**1.1x**	5.2x**
Kenya Re	19.6	0.7	13.7	**0.5x**	4.1x
Median				**1.3x**	**7.8x**
*****Average**				**1.3x**	**7.5x**

**Share Price as at 13th October 2017*

***5 year normalizedP/E*

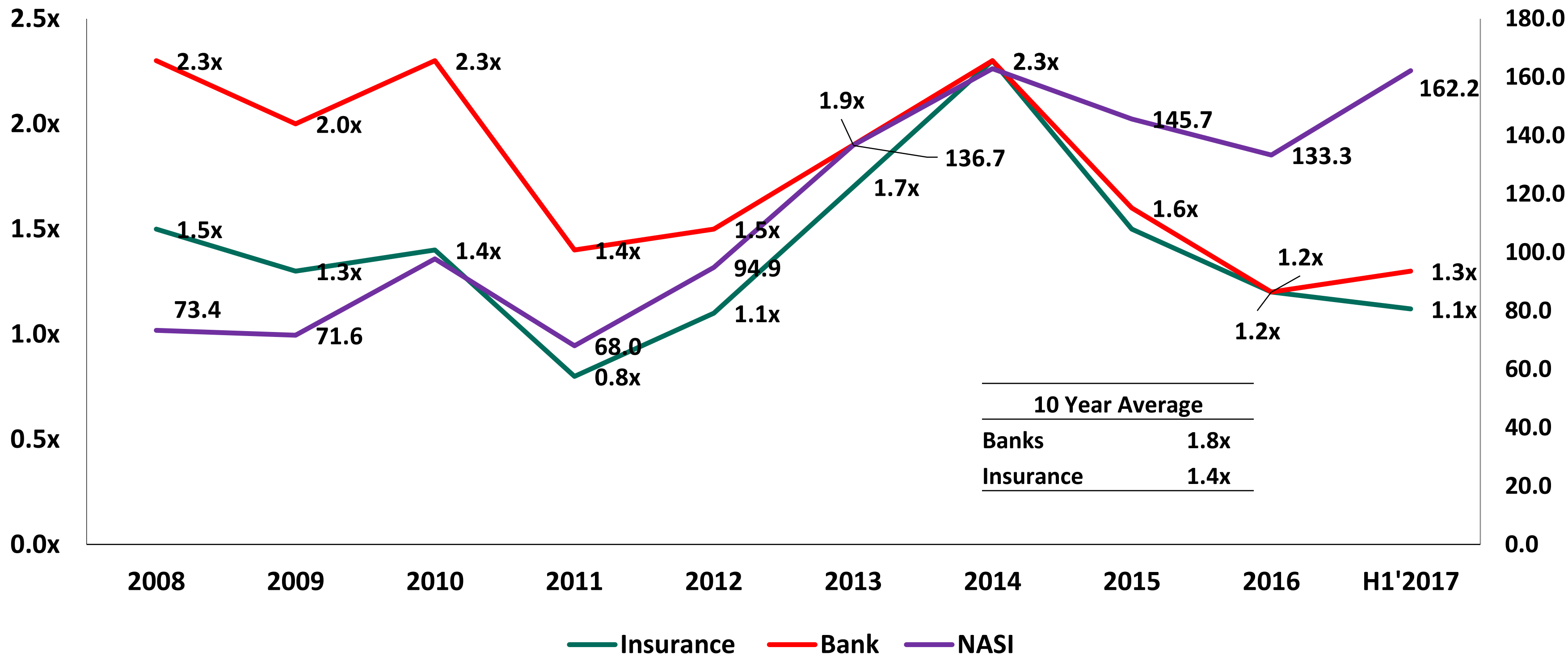
***Average is market cap weighted

Source: NSE, Cytonn Data

Insurance Sector Multiples

Insurance stocks are currently trading at a P/B of 1.1x compared to the banking stocks at a P/B of 1.3x

Historical Price to book values: Banking and Insurance vs NASI



On a price to book valuation, listed insurance stocks are currently trading at a P/B of 1.1x below the banking sector at a P/B of 1.3x, and historical average of 1.4x.

Source – Cytonn Research

IV. Cytonn's Insurance Sector Report

Executive Summary

We undertook this report to offer investors a comprehensive view of the listed insurance companies

- All listed insurance companies in the Kenyan market were analysed by the Cytonn Investment Team
- The analysis was brought about by a need to be able to offer our investors, especially global investors, which insurance companies in our view are the most stable from a franchise value and from a future growth opportunity perspective
- The analysis covers the health and future expected performance of the financial institution, by highlighting their performance using metrics to measure Profitability, efficiency, diversification, risk appetite and solvency
- For insurance companies which are part of a group structure, the financials of the group were utilised to take into consideration the listed counter which an investor will purchase
- Ranking based on a weighted average ranking of Franchise value* (40%) and Intrinsic value* (60%)
- All the listed insurance companies are composite insurance companies, offering both life and general business. Kenya Re Insurance is the only listed reinsurer

**See appendix for definition*

Kenya's Insurance Sector – *Sustaining profitability in an era of heightened regulation*

Focus Area	Summary	Impact on Insurance Sector
Regulation	• The Insurance Regulatory Authority (IRA) has put in place risk based supervision capital requirements under the Insurance (Amendment Act 2016) to ensure that all firms have adequate capital in relation to risks handled to enhance a stable and sustained sector • The sector is set to fall under the regulation of the Financial Services Authority (FSA) as proposed by the Finance Bill 2017, among other financial services providers	• Increased risk based analysis on investments and deeper supervision on internal practices by insurance companies is expected to shed light on companies that are poorly run • In our view, the regulation of the insurance sector by the FSA is likely to lead to more transparency and symmetric sharing of information among the financial services providers, and also consolidation of the smaller insurance firms to meet the minimum capital requirements
Operational Efficiency	• The listed insurance firms recorded an expense ratio of 56.9% in H1'2017, up from 42.8% in FY'2016 • The rising expense ratio indicates increasing levels of inefficiency in underwriting and product distribution by insurance firms and has been affecting profitability negatively	• If correct distribution mechanisms and strategies are not employed the expenses incurred by the insurance firms will lead to poor performance and low profitability in the sector • Adoption of mobile and online underwriting platforms could be essential for insurance firms in enhancing efficiency in their operations through reduced expenditure on collecting premiums
Product Innovation	• Insurance products are not tailored to the common citizen and not innovative enough to target citizens with low disposable income • The sector has witnessed duplication of products thus flooding the market with irrelevant insurance products	• Increased product penetration may not be a reality as citizens are unable to take up insurance • Increased competition as insurance companies become more innovative with their products and their distribution channels, while those that cannot shall be acquired or leave the industry

We expect increased product innovation and operational efficiency in the sector to enhance sustainability of profitability and thus growth of the sector amidst the heightened regulation

Cytonn INVESTMENTS

Rankings by Franchise Value

Kenya Re emerged top in the franchise value rankings*, Sanlam Kenya coming last

Company	ROaTE**	Investment Income/Total Income	Loss Ratio	Expense Ratio	Combined Ratio	Ceded Premium Ratio	Solvency Ratio	Underwriting Leverage	Reserve Leverage	Corporate Governance Score	Total	H1'2017 Rank	FY'2016 Rank
Kenya Re	2	5	2	3	1	6	1	1	1	6	**28**	**1**	1
Jubilee Holdings	1	3	5	1	4	5	3	3	4	1	**30**	**2**	2
Liberty Holdings	3	2	4	6	6	1	5	2	3	2	**34**	**3**	5
Britam Holdings	5	4	1	5	3	2	4	4	2	5	**35**	**4**	3
CIC Group	6	6	3	2	2	4	2	6	5	3	**39**	**5**	4
Sanlam Kenya	4	1	6	4	5	3	6	5	6	4	**44**	**6**	6

- **The Insurance ranking assigns a value of 1 for the best performing insurance company, and a value of 6 for the worst**
- The rankings highlights profitability, efficiency, diversification, risk appetite and governance
- Kenya Re maintained top position on the back of a low combined ratio, a better underwriting leverage and reserve leverage
- CIC Group dropped from position 4 to position 5, affected by a low return on average tangible equity and low underwriting leverage

Source: Cytonn Research

**** All metrics in the franchise value rankings are explained in slides 41 - 44***

***** ROaTE- Return on Tangible Equity***

Cytonn INVESTMENTS

Rankings by Total Potential Return

Liberty Holdings was the leader in intrinsic value ranking followed closely by Kenya Re with total potential returns of 31.2% and 28.6%, respectively

Company	Current Price	Intrinsic Valuation	Upside	Dividend Yield	Total Return	Rank
Liberty Holdings	12.5	16.4	31.2%	0.0%	31.2%	**1**
Kenya Re	19.6	24.4	24.5%	4.1%	28.6%	**2**
Jubilee Holdings	479.0	575.4	20.1%	1.8%	21.9%	**3**
CIC Group	5.4	6.2	16.6%	2.0%	18.6%	**4**
Britam Holdings	14.1	15.2	7.7%	1.6%	9.3%	**5**
Sanlam Kenya	29.0	31.4	8.1%	0.0%	8.1%	**6**

- Liberty Holdings and Kenya Re held the first and second positions with total potential returns of 31.2% and 28.6%, respectively
- Sanlam Kenya registered the lowest total potential return, at 8.1%

Source – Cytonn Research

Cytonn's Insurance Sector Report – Comprehensive Rankings

When combining franchise and intrinsic rankings, Kenya Re maintains the top position

CYTONN'S H1'2017 INSURANCE REPORT RANKINGS					
Company	**Franchise Value Total Score**	**Total Return Score**	**Composite FY'2016 Score**	**H1'17 Rank**	**FY'16 Rank**
Kenya Re	28	2	12	**1**	1
Jubilee Holdings	30	3	14	**2**	3
Liberty Holdings	34	1	14	**3**	5
Britam Holdings	35	5	17	**4**	2
CIC Group	39	4	18	**5**	4
Sanlam Kenya	44	6	21	**6**	6

- **Franchise value was assigned a weighting of 40% while the intrinsic value was assigned 60% weight,**
- Kenya Re maintained the top position ranking top in the composite score category supported by a strong franchise value score
- Liberty Holdings was the most improved, rising 2 positions to position 3 owing to its higher potential return of 31.2% and an improvement in its franchise value score
- Sanlam Kenya came in at position six in the composite ranking similar to FY'2016

Source – Cytonn Research

Cytonn INVESTMENTS

V. Appendix

A. Metrics Used - Definitions

Insurance Sector Report – Metrics Used

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Return on Average Tangible Equity** – An Insurance Company's return on average tangible equity (ROaTE), is the amount of profit the company earns as a percentage of average tangible shareholders' equity. It's a profitability measure that shows how much a company generates with the money shareholders have invested
  - Output – Insurance firms with higher ROaTEs are better at utilizing capital to generate profits

- **Investment Income/ Total Income Ratio –** This ratio indicates the proportion of investment income that makes up total income generated by the company. It is a measure of revenue diversification that shows how much revenue a company generates away from its underwriting business
  - Output – Insurance firms with higher investment income to total income ratios have more diversified revenue streams, and are less reliant on their underwriting business

- **Loss Ratio –** An insurance company's loss ratio is the ratio of its net claims to the net premiums. It is a measure of the company's ability to settle the claims from the premiums generated from policyholders
  - Output – A higher loss ratio indicates that the insurance company is using more of its premiums to pay out claims and are more likely to be less profitable

- **Expense Ratio –** This is the ratio of a companies operating expenses to its net premiums. It is a measure of efficiency of management in generating premiums for the business written by the company
  - Output – A higher expense ratio indicates that the company is incurring more expenses in mobilizing more premiums, an indicator of inefficiency of operations

Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Combined Ratio** - The combined ratio reflects both the cost of protection and the cost of generating and maintaining the business
  - Output - When the combined ratio is under 100%, underwriting results are considered profitable; when the combined ratio is over 100%, underwriting results are considered unprofitable

- **Ceded Premium Ratio –** Ceded premium ratio indicates the amount of gross premiums which insurance companies cede to reinsurance. It is a measure of how much risk an insurance company is willing to take and diversify to reinsurance companies
  - Output – A low ceded premium ratio indicates a company has a high risk appetite to a company with a higher ratio. Also extremely high ratios also indicates that the company may not be able to run its operations effectively

- **Solvency Ratio –** This ratio is the amount of policy holder surplus to assets which indicates the amount of assets not required for the payment of claim
  - Output – A higher ratio indicates that the company is more solvent and less likely to go bankrupt

- **Underwriting Leverage Ratio**– This is the ratio of net premiums to shareholder's funds. This ratio is **inversely** related to the capacity of companies to write additional business because new policies generate liabilities, which must be supported by surplus due to the limited liability of insurance companies
  - Output – A high ratio indicates that the capacity to write new business is low

Insurance Sector Report – Metrics Used, continued…

Cytonn has undertaken the analysis of listed insurance companies in Kenya using 10 metrics

- **Reserve Leverage Ratio** – This is the ratio of net claims to shareholder's funds. This ratio represents an insurer's major unpaid obligations as a percentage of net worth, and is **inversely** related to the firm's ability to bear loss shocks and errors in loss forecasting
  - Output – A higher ratio indicates that the company has a lower ability to absorb sudden large shocks

- **Corporate Governance Score** – Given the recent developments in the Financial services sector, which include Dubai Bank and Imperial Bank being put under receivership due to poor governance, we developed a 13th metric to measure corporate governance. This is a ranking system where we analyse 25 metrics to rank listed companies on their corporate governance. Main areas of analysis are in the board composition, audit functions, CEO tenor and evaluation, remuneration and transparency

  - **Output:** The score assumes a diffusion index with 50% as the base. Anything below 50% should be flagged as having serious corporate governance issues while anything above is skewed towards proper governance. However the variance from 100% gives the risk associated with corporate governance

Insurance Sector Report – Metrics Used, continued…

The rating of the insurance companies was done using franchise and intrinsic value

a. **Franchise Value Total Score:** In this ranking, the insurance companies are ranked by health, by looking at metrics for profitability, efficiency, diversification and risk appetite. The insurance companies are then assigned scores ranging from 1, which is the best performing (re)insurer in the metric, till 6, which is the worst performing (re)insurer. The scores from each (re)insurer are then summated, with the (re)insurer with the lowest total score emerging on top, and that with the highest score emerging at the bottom

b. **Total Return Score:** Potential upside for each (re) insurer based on the intrinsic valuation, and the current market price. The (re)insurer with the highest upside was ranked 1st, and that with the lowest upside, or greatest downside, was ranked last. Cytonn's Analysts carry out this valuation, arriving at the actual value of each (re) insurer based on an underlying perception of its true value, including all aspects of the business, in terms of both tangible and intangible factors, and future growth expectations. This value may or may not be the same as the current market value

c. **Overall Rank:** Using the Franchise Value and Total Return, insurance companies are given a score. Franchise value was assigned a weighting of 40%, while the intrinsic value was assigned a 60% weight

B. Listed Insurance Companies

Insurance Companies' Value Drivers and Cons

Bank	Value Drivers	Cons
CIC Group	• Adoption of alternative channels, such as Sacco distributions, mobile and internet platform • CIC's underwriting discipline as highlighted by a strong underwriting leverage is bound to derive value for the company going forward	• Increased exposure to short term business characterized by high and fraudulent claims • Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet
Britam	• Regional business coupled with efficient distribution channels will drive premium growth, • Asset management business will drive and diversify growth for the overall group	• Increased exposure to the risky assets, like equites is likely to increase the company's risk adjusted losses • No clear revenue diversification and real estate strategy
Liberty	• Venture into alternative channels of distribution like bancassurance and internet insurance • Customized insurance products that fit the needs of the clients such as motor insurance tailor-made for women	• Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet • Pricing and undercutting risk with increased competition, particularly in the short term business, growth in the premiums is expected to slow down
Sanlam	• Has a strong in-house actuarial risk function • Acquisition of Gateway Insurance, now Sanlam General gives it the chance to venture into the general business space	• Credit risk with high levels of unpaid premium increasing a liability load on the balance sheet • Their venture into general insurance will stifle growth given the high loss ratios in this business line
Jubilee	• Jubilee has been able to consolidate its market leadership in Kenya, Uganda and Tanzania making important market share gains in Burundi and increased regional expansion including its recent partnership with state owned Sonas of DRC	• Jubilee still maintains high combined ratios at 122.7% during the year 2016 with the underwriting business in the industry not being very profitable • Slow uptake of insurance in the Kenyan and regional markets, driven by low education levels and high premium rates
Kenya Re	• Kenya Re is Retakaful Compliant. This is the Islamic insurance that is an alternative for conventional insurance. It has enabled Kenya Re to capture the Muslim segment of the market	• Kenya Re management being subject to political approval may be subject to bureaucratic procedures hindering performance

I. Kenya Re

Financial Statements Extracts

Kenya Re's PAT is expected to grow at a 5-year CAGR of 10.1%

Income Statement	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	13.1	13.2	15.2	17.1	19.2
Premium Ceded to Reinsurers	(1.0)	(0.6)	(0.8)	(0.9)	(1.0)
Net Premium Income	**12.0**	**12.7**	**14.4**	**16.2**	**18.2**
Investment Income	3.0	3.1	2.6	2.7	3.1
Total Other Revenue	**1.4**	**1.3**	**1.3**	**1.3**	**1.3**
Total Revenue	**16.4**	**17.0**	**18.3**	**20.2**	**22.5**
Net Benefits and Claims	**(7.1)**	**(6.7)**	**(6.9)**	**(7.8)**	**(8.7)**
Fee and Commission Expense	0.0	0.0	0.0	0.0	0.0
Operating Expenses	(1.4)	(2.5)	(2.4)	(2.7)	(3.1)
PBT	**4.5**	**4.2**	**5.1**	**5.4**	**5.9**
Income Tax Expense	(1.0)	(0.9)	(1.3)	(1.4)	(1.5)
PAT	**3.6**	**3.3**	**3.8**	**4.1**	**4.4**
Core EPS	**5.1**	**4.7**	**5.5**	**5.8**	**6.3**
Core EPS Growth	**13.3%**	**(7.5%)**	**17.1%**	**5.8%**	**8.8%**

Cytonn INVESTMENTS

Financial Statements Extracts

Kenya Re's Balance Sheet is expected to grow at a 5-year CAGR of 13.0%

Balance Sheet	FY15	FY16	FY17	FY18	FY19
Property and Equipment	0.1	0.1	0.1	0.1	0.1
Investment Properties	8.0	8.9	9.4	10.5	11.7
Financial Investments	13.1	15.2	16.4	17.3	18.2
Other Assets	14.8	14.3	18.3	21.8	25.8
Total Assets	**36.0**	**38.5**	**44.1**	**49.7**	**55.9**
Insurance Contract Liabilities	7.3	7.7	9.1	10.6	12.4
Borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	6.7	6.7	7.6	8.2	8.9
Total Liabilities	**14.0**	**14.4**	**16.7**	**18.8**	**21.3**
Total Equity	**21.9**	**24.1**	**27.5**	**30.9**	**34.5**
Total Capital and Liabilities	**36.0**	**38.5**	**44.1**	**49.7**	**55.9**

Valuation Summary

Kenya Re is undervalued with a total potential return of 28.6%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate	13.2%
Beta	0.7
Mature Market Risk Premium	6.4%
Extra Risk Premium	0.5%
Cost of Equity	18.0%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.1%
Return on Average Equity 2021	13.0%
Terminal Price to Book value	0.6x

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	23.5	75.0%	17.6
PBV Multiple	24.0	20.0%	4.8
PE Multiple	39.9	5.0%	2.0
Fair Value			**24.4**
Current Price			19.6
Upside/(Downside)			24.6%
Dividend Yield			4.1%
Total Return			**28.6%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

II. Jubilee Insurance

Financial Statements Extracts

Jubilee Insurance is expected to grow at a 5-year CAGR of 14.3%

Income Statement	FY'15	FY'16	FY'17e	FY'18f	FY'19f
Gross Premium Income	23.0	26.9	29.6	32.6	35.8
Premium Ceded to reinsurers	(8.2)	(9.3)	(10.8)	(12.0)	(13.3)
Net Premium Income	**14.9**	**17.6**	**18.8**	**20.5**	**22.6**
Fee and Commission income	1.8	2.0	1.9	2.2	2.3
Investment Income	6.1	6.7	6.7	7.3	8.1
Total Other Revenue	**6.8**	**10.0**	**9.9**	**10.8**	**11.7**
Total Revenue	**21.7**	**27.6**	**28.7**	**31.3**	**34.2**
Gross Benefits and claims paid	(16.4)	(19.9)	(21.6)	(22.6)	(23.7)
Net Benefits and claims	**(11.6)**	**(14.0)**	**(15.3)**	**(16.0)**	**(16.9)**
Operating and other expenses	(3.9)	(4.2)	(5.0)	(5.5)	(6.0)
Fee and Commission Expense	(3.1)	(3.4)	(3.8)	(4.2)	(4.7)
PBT	**4.1**	**4.6**	**5.9**	**7.0**	**8.1**
Income Tax expense	(1.0)	(0.9)	(1.2)	(1.4)	(1.6)
PAT	**3.1**	**3.7**	**4.7**	**5.6**	**6.5**
Core EPS	**52.1**	**61.4**	**79.2**	**93.7**	**108.1**
% change in PAT	**0.6%**	**17.8%**	**29.1%**	**18.3%**	**15.3%**

Cytonn INVESTMENTS

Financial Statements Extracts…Continued

Jubilee Insurance Balance sheet is expected to grow at a CAGR of 13.0%

Balance Sheet	FY'13	FY'14	FY'15	FY'16	FY'17e	FY'18f	FY'19f
Property and equipment	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment properties	4.4	5.1	5.5	6.0	6.6	7.2	7.8
Investment in Associates	6.5	7.7	8.7	9.3	11.3	12.9	14.8
Financial Investments	30.0	36.2	42.6	50.4	60.1	66.1	72.7
Total Assets	**61.2**	**74.5**	**82.4**	**90.6**	**110.7**	**122.1**	**135.3**
Insurance contract liabilities	15.1	19.6	18.7	20.3	22.3	21.2	20.2
Amounts payable under deposit administration contracts	21.0	26.9	31.0	36.0	43.7	50.3	57.8
Total Liabilities	**47.8**	**58.0**	**62.0**	**69.1**	**82.7**	**89.3**	**97.1**
Total Equity	**13.3**	**16.5**	**20.4**	**21.4**	**28.0**	**32.8**	**38.2**
Total Liabilities and Equity	**61.2**	**74.5**	**82.4**	**90.6**	**110.7**	**122.1**	**135.3**

Valuation Summary

Jubilee Insurance is undervalued with a total potential return of 21.9%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate*	13.2%
Beta	0.8
Mature Market Risk Premium	6.4%
Extra Risk Premium	2.5%
Cost of Equity	20.1%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	22.1%
Return on Average Equity	15.0%
Terminal Book value per share	1.5x
Justified Terminal Price (2021)	78.8
BV(2021)	50.1

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	622.6	80%	466.6
PBV Multiple	435.5	15%	87.1
PE Multiple	428.2	5%	21.4
Fair Value			**575.4**
Current Price			**479.0**
Upside/(Downside)			**20.0%**
Dividend Yield			1.8%
Total Upside/(Downside)			**21.9%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

III. Liberty Holdings

Financial Statements Extracts

Liberty Holdings PAT is expected to grow at a 5-year CAGR of 8.9%

Income Statement	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	9.4	9.6	10.4	11.2	12.1
Premium Ceded to reinsurers	(3.8)	(4.0)	(4.3)	(4.6)	(5.0)
Net Premium Income	**5.5**	**5.6**	**6.1**	**6.6**	**7.2**
Fee and Commission income	0.8	0.9	1.0	1.0	1.1
Investment Income	1.8	2.6	2.7	3.0	3.3
Total Other Revenue	**0.1**	**0.0**	**0.1**	**0.1**	**0.1**
Total Revenue	**8.3**	**9.0**	**9.9**	**10.8**	**11.7**
Net Benefits and claims	**(3.1)**	**(4.0)**	**(4.5)**	**(5.1)**	**(5.5)**
Fee and Commission Expense	(1.2)	(1.2)	(1.4)	(1.5)	(1.6)
Operating Expenses	(3.0)	(3.0)	(3.1)	(3.2)	(3.4)
PBT	**1.0**	**0.9**	**1.0**	**1.0**	**1.1**
Income Tax expense	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
PAT	**0.7**	**0.6**	**0.8**	**0.8**	**0.9**
Core EPS	**1.4**	**1.2**	**1.4**	**1.5**	**1.6**
% change in PAT	**-35.7%**	**-14.7%**	**21.9%**	**3.4%**	**9.3%**

Financial Statements Extracts

Liberty Holdings Balance Sheet is expected to grow at a 5-year CAGR of 6.1%

Balance Sheet	FY15	FY16	FY17	FY18	FY19
Property and equipment	1.1	1.1	1.1	1.1	1.1
Investment properties	1.0	0.8	0.9	1.0	1.1
Financial Investments	19.1	21.9	25.0	28.2	31.7
Other Assets	13.3	10.9	10.2	9.4	8.7
Total Assets	**34.5**	**34.7**	**37.1**	**39.7**	**42.6**
Insurance contract liabilities	11.1	11.9	12.5	13.2	14.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Amounts payable under deposit administration contracts	17.2	16.0	17.1	18.2	19.5
Total Liabilities	**28.3**	**27.9**	**29.6**	**31.4**	**33.4**
Total Equity	**6.2**	**6.8**	**7.4**	**8.2**	**9.0**
Total Capital and Liabilities	**34.5**	**34.7**	**37.0**	**39.6**	**42.5**

Valuation Summary

Liberty Holding is undervalued with a total potential return of 30.5%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate	13.2%
Beta	0.7
Mature Market Risk Premium	6.4%
Extra Risk Premium	0.5%
Cost of Equity	18.3%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.1%
Return on Average Equity	9.2%
Terminal P/B	1.4x
Shareholder Equity - FY21e	10.9
Terminal Value-(Year 2021)	5.1

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	15.7	75.0%	11.7
PBV Multiple	19.3	20.0%	3.9
PE Multiple	15.9	5.0%	0.8
Target Price			**16.4**
Current Price			**12.5**
Upside/(Downside)			31.2%
Dividend Yield			0.0%
Total Potential Return			**31.2%**

** Five years average yields on a 10 year Treasury bond*

Cytonn INVESTMENTS

IIV. Britam Holdings

Financial Statements Extracts

Britam Holdings PAT is expected to grow at a 5-year CAGR of 10.3%

Income Statement	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	19.6	20.3	21.8	24.5	27.6
Premium Ceded to Reinsurers	(3.2)	(2.9)	(3.3)	(3.9)	(4.4)
Net Premium Income	**16.4**	**17.4**	**18.5**	**20.6**	**23.2**
Investment Income	4.3	5.2	5.6	5.3	6.0
Total Other Revenue	**15.8**	**17.1**	**21.0**	**23.8**	**26.7**
Total Revenue	**20.1**	**22.4**	**26.6**	**29.1**	**32.7**
Net Benefits and Claims	(10.6)	(5.0)	(7.6)	(8.9)	(10.4)
Fee and Commission Expense	(3.3)	(3.5)	(3.9)	(4.4)	(5.1)
Total Expenses	(21.9)	(18.6)	(23.2)	(25.3)	(28.6)
PBT	**(1.8)**	**3.8**	**3.5**	**3.8**	**4.1**
Income Tax Expense	0.8	(1.3)	(0.7)	(0.8)	(0.8)
PAT	**(1.0)**	**2.5**	**2.7**	**3.0**	**3.3**
Core EPS	**(0.5)**	**1.3**	**1.6**	**1.7**	**1.9**
Core EPS Growth	**-**	**-**	**22.1%**	**9.0%**	**9.0%**

Financial Statements Extracts

Britam Holdings Balance Sheet is expected to grow at a 5-year CAGR of 15.0%

Balance Sheet	FY15	FY16	FY17	FY18	FY19
Investment Property	8.2	4.9	15.9	18.9	25.5
Other Assets	69.5	78.8	83.2	85.9	116.0
Total Assets	**77.6**	**83.6**	**99.1**	**104.8**	**141.4**
Insurance Contract Liabilities	36.8	40.6	43.1	45.7	48.6
Other Liabilities	23.2	25.2	25.8	25.8	56.3
Total Liabilities	**60.0**	**65.8**	**68.8**	**71.5**	**104.9**
Total Equity	**17.7**	**17.9**	**30.2**	**33.2**	**36.5**
Total Capital and Liabilities	**77.6**	**83.6**	**99.1**	**104.8**	**141.4**

Cytonn INVESTMENTS

Valuation Summary

Britam Holdings is undervalued with a total potential return of 9.3%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate*	13.2%
Beta	1.2
Mature Market Risk Premium	6.4%
Extra Risk Premium	1.5%
Cost of Equity	22.8%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	20.1%
Return on Average Equity 2021	14.3%
Terminal Price to Book value	1.6x

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	18.6	45%	8.4
SOTP Approach	13.3	30%	4.0
PBV	12.6	20%	2.5
PE	5.7	5%	0.3
Fair Value			**15.2**
Current Price			**14.1**
Upside/(Downside)			7.7%
Dividend Yield			1.6%
Total Return			**9.3%**

** Five years average yields on a 10 year Treasury bond*

V. CIC Insurance

Financial Statements Extracts

CIC Insurance is expected to grow at a normalized 5-year CAGR of 8.0%

Income Statement	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	12.6	11.7	13.2	14.9	17.2
Premium Ceded to reinsurers	(1.9)	(1.7)	(2.2)	(2.5)	(2.9)
Net Premium Income	**10.7**	**10.0**	**10.9**	**12.3**	**14.3**
Fee and Commission income	0.7	0.6	1.2	1.8	2.2
Investment Income	1.5	1.3	1.9	2.0	2.2
Total Other Revenue	2.2	1.9	3.1	3.8	4.3
Total Revenue	12.9	12.0	14.0	16.2	18.7
Gross Benefits and claims paid	(7.3)	(6.4)	(7.5)	(8.5)	(9.9)
Net Benefits and claims	(7.3)	(6.4)	(7.5)	(8.5)	(9.9)
Fee and Commission Expense	(1.4)	(1.5)	(1.4)	(1.5)	(1.4)
Operating Expenses	(3.8)	(4.6)	(5.5)	(6.0)	(7.2)
PBT	0.7	0.2	0.7	1.1	1.4
Income Tax expense	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
PAT	0.5	0.1	0.5	0.8	1.1
% change in PAT	**-54.7%**	**-79.5%**	**406.5%**	**53.8%**	**36.3%**

Financial Statements Extracts

CIC Insurance balance sheet is expected to grow at a 5-year CAGR of 9.9%

Balance Sheet	2015	2016	2017F	2018F	2019F
Property and Equipment	1.3	1.3	1.3	1.3	1.3
Investment property	5.4	6.1	7.2	8.1	9.1
Financial Assets	13.4	12.9	12.8	12.8	12.8
Other Assets	0.4	0.2	7.5	7.5	7.5
Total Assets	**25.3**	**26.8**	**31.6**	**33.7**	**36.3**
Borrowings	5.1	5.1	5.3	5.3	5.3
Insurance Contract Liabilities	9.8	11.7	17.1	18.8	20.7
Total Liabilities	**17.6**	**19.5**	**24.0**	**26.1**	**28.0**
Total Equity	**7.7**	**7.3**	**7.6**	**8.0**	**8.3**
Total Capital & Liabilities	**25.3**	**26.8**	**31.6**	**33.7**	**36.3**

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Valuation Summary

CIC is fairly valued with a total potential return of 18.5%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate	13.2%
Beta	0.8
Mature Market Risk Premium	6.4%
Extra Risk Premium	3.5%
Cost of Equity	20.7%

Terminal Assumptions:	
Growth rate	5%
Mature Company Beta	1.0
Terminal Cost of Equity	23.1%
Return on Average Equity	15.9%
Justified Price to Book value per share	1.9x

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income approach	6.8	75%	5.1
Price to Book approach	4.4	20%	0.9
Price to Earnings approach	5.2	5%	0.3
Fair Value			**6.2**
Current Price			**5.4**
Upside/(Downside)			**16.6%**
Dividend Yield			**2.0%**
Total Return			**18.5%**

** Five years average yields on a 10 year Treasury bond*

VI. Sanlam Kenya

Financial Statements Extracts

Sanlam Kenya's PAT is expected to grow at a 5-year CAGR of 22.3%

Income Statement	FY15	FY16	FY17	FY18	FY19
Gross Premium Income	5.2	5.2	5.6	6.0	6.4
Premium Ceded to reinsurers	(0.4)	(0.4)	(0.7)	(0.7)	(0.7)
Net Premium Income	**4.8**	**4.8**	**4.9**	**5.3**	**5.7**
Fee and Commission income	0.1	0.1	0.2	0.1	0.1
Investment Income	2.4	2.5	2.4	2.6	2.9
Total Other Revenue	**2.4**	**2.3**	**2.9**	**3.2**	**3.4**
Total Revenue	**7.2**	**7.2**	**7.8**	**8.5**	**9.1**
Net Benefits and claims	**(4.3)**	**(4.5)**	**(5.0)**	**(5.4)**	**(5.8)**
Fee and Commission Expense	(0.8)	(0.7)	(0.8)	(0.8)	(0.9)
Operating Expenses	(2.1)	(1.7)	(1.9)	(2.0)	(2.2)
PBT	**0.1**	**0.3**	**0.1**	**0.2**	**0.2**
Income Tax expense	(0.0)	(0.2)	(0.0)	(0.1)	(0.1)
PAT	**0.0**	**0.1**	**0.1**	**0.1**	**0.2**
Core EPS	**0.2**	**0.5**	**0.7**	**0.9**	**1.0**
% change in PAT	**(96.9%)**	**158.2%**	**47.6%**	**23.3%**	**16.7%**

Financial Statements Extracts

Sanlam Kenya's Balance Sheet is expected to grow at a 5-year CAGR of 9.5%

Balance Sheet	FY15	FY16	FY17	FY18	FY19
Property and equipment	0.1	0.1	0.2	0.2	0.2
Investment properties	2.7	2.8	3.3	3.6	3.8
Financial Investments	18.2	19.5	21.5	23.6	26.0
Other Assets	6.1	6.1	6.9	7.2	7.6
Total Assets	**27.1**	**28.4**	**31.8**	**34.5**	**37.6**
Insurance contract liabilities	19.7	20.4	22.4	24.6	27.1
Borrowings	0.0	0.0	0.0	0.0	0.0
Amounts payable under deposit administration contracts	3.6	4.2	5.3	5.6	6.1
Total Liabilities	**23.3**	**24.5**	**27.7**	**30.3**	**33.1**
Total Equity	**3.8**	**3.9**	**4.1**	**4.3**	**4.4**
Total Capital and Liabilities	**27.1**	**28.4**	**31.8**	**34.5**	**37.6**

Valuation Summary

Sanlam Kenya is undervalued with a total potential return of 8.1%

Cost of Equity Assumptions:	13-Oct-17
Default Spread Adjusted Risk free rate	13.2%
Beta	1.0
Mature Market Risk Premium	6.4%
Extra Risk Premium	0.0%
Cost of Equity	19.6%

Terminal Assumptions:	
Growth rate	5.0%
Mature Company Beta	1.0
Terminal Cost of Equity	19.6%
Return on Average Equity	4.1%
Terminal P/B	1.8x
Shareholder Equity - FY21e	4.6
Terminal Value-(Year 2021)	4.1

Valuation Summary:	Implied Price	Weighting	Weighted Value
Residual Income	29.4	75.0%	22.0
PBV Multiple	40.1	20.0%	8.0
PE Multiple	26.5	5.0%	1.3
Target Price			**31.4**
Current Price			**29.0**
Upside/(Downside)			8.1%
Dividend Yield			0.0%
Total Potential Return			**8.1%**

** Five years average yields on a 10 year Treasury bond*

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Feedback Summary

During the preparation of this H1'2017 Insurance Sector Report, we shared with the subject companies the operating metrics that were used in the rankings for their confirmation and verification

Below is a summary of the insurance firms we were able to acquire feedback from and those that went unresponsive.

Bank	Operating Metrics Shared	Sent Feedback
Kenya Re Insurance	Yes	No
Jubilee Holdings	Yes	No
Liberty Holdings	Yes	Yes
Britam Holdings	Yes	No
Sanlam Kenya	Yes	No
CIC Group	Yes	No

Thank You!

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For more information or any further clarification required, kindly contact the research team at investment@cytonn.com

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