

Sanlam Kenya Results

AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31ST DECEMBER, 2017

1. Introduction

The Board of Directors of Sanlam Kenya PLC ("Sanlam") is pleased to announce the Group's audited results for the year ended 31st December 2017.

2. Key Features

- Profit before tax at KShs. 247m (2016: KShs. 317m)
- Total assets up by 5% to KShs. 29.8b (2016: KShs. 28.4b)
- Group Embedded Value is at KShs. 4.4b (2016: KShs. 4.7b)
- Value of New Business is at KShs. 45m (2016: KShs. -88m)
- General Insurance Written Premium is at KShs. 2.15b (2016: KShs. 1b)
- General business underwriting profit is at KShs. 40m (2016: KShs. -38m)

3. Accounting Policies

The Group's accounting policies comply with International Financial Reporting Standards (IFRS) as well as the Kenyan Companies Act, 2015. These policies are consistent with those applied in prior years.

4. The Economic Environment

According to the National Treasury, Kenya's economy remained resilient in 2017 despite adverse weather conditions, a prolonged electioneering period as well as subdued credit growth to the private sector which combined to weaken growth in the first half of the year. Economic growth for 2017 is estimated at 4.8% from 5.8% in 2016. On the positive side, growth in 2017 was supported by the ongoing public infrastructure investments, improved weather towards end of 2017, recovery in the tourism sector and a stable macroeconomic environment.

Despite the slowed economic growth recorded in the year, the insurance industry recorded a 10.7% growth in premiums during the period to September 2017 compared to a growth of 7.2% in a similar period in 2016. The growth was largely driven by accelerated growth in the life insurance segment which grew 16.9% compared to the general insurance segment that grew by 7.2%. Overall premiums are however still largely skewed towards general insurance which accounted for 62.3% of the KShs. 160.6b of premiums collected as at the end of September 2017.

The Kenya shilling remained stable in the year which depreciated by 0.7% against the US dollar. Inflation was relatively high resulting from rising food prices but declined towards the end of the year to close at 4.5% as food inflation reduced. The Kenyan Capital Markets recorded strong growth despite the prolonged electioneering period. This is evidenced by positive returns on all asset classes with the NASI gaining 28.4% compared to (8.5%) in 2016 and the FTSE bond index gaining 16.5% from (0.2%) in 2016.

The insurance sector continues to be shaped by changes in the demographic profile of the population, macroeconomic conditions, industry competition and regulatory reforms. Market players are particularly keen on monitoring their balance sheets to ensure compliance with the new Risk Based Capital requirements which come into full effect in June 2020.

5. Financial Overview

The Group's profit before tax of KShs. 247m in the current year, decreased from KShs. 317m reported in December 2016. This is mainly attributable to decline in performance of the life insurance, investments and property businesses in 2017.

The Group results are analysed as follows;

	31 Dec 2017	31 Dec 2016
	KShs.' M	KShs.' M
Operating profit	82	549
Investment income on shareholders' assets	165	(232)
Profit before tax	247	317
Tax	(194)	(246)
Net profit for the period	53	71
Other comprehensive income	-	23
Net profit and other comprehensive income	53	94

Comprehensive income attributable to:

Owners of the parent	31	106
Non-controlling interests	22	(12)

Included in the operating profit are the results of our life insurance, general insurance, investments, property and loans businesses. The general insurance and loan businesses exceeded the 2016 operating profit levels while the life insurance, investment management and property businesses performance declined. The general insurance business continues to show significant growth and returned to profitability in 2017.

Life Insurance Business: Gross written premium declined by 2% to KShs. 4.3b from KShs. 4.4b in 2016. Corporate business premium income grew by 28% while retail business premium income grew by 2% attributable to stabilizing distribution channels and marked improvement on our financial consultants' production.

General Insurance Business: The company returned an underwriting profit of KShs. 40m as gains from the business transformation program came through in 2017. Gross written premium grew by 115% from KShs. 1b to KShs. 2.15b buoyed by stronger engagement with our customers and business partners. Investment returns increased by 6,634% from KShs. 1m in 2016 to KShs. 61m in 2017. Prior year investment income was impacted negatively by realized losses on property disposals. Policyholder benefits and claims closed at KShs. 770m, an increase of 474% from KShs. 134m posted in 2016 in line with growth in gross written premiums. The general business is well on track to become a major player in the general insurance market in Kenya.

Asset Management: Fee income from our investment business decreased by 28% to KShs. 113m from KShs. 156m on account of lower outperformance fees in 2017 and slower AUM growth.

6. Dividends

The introduction of the new Risk Based Capital regime in 2020 will significantly increase the capital requirement for the Group's life and general insurance businesses. This is over and above the impact of the revised guidelines on valuations of technical provisions for the life business on the back of the high prescribed margins used for reserving. The Board of Directors will not be recommending the payment of a dividend for the year ended 2017 (2016: Nil) at the forthcoming Annual General Meeting scheduled for Thursday 10th May 2018.

7. Regulatory Developments

The main regulatory development in the insurance sector was the gazetting of The Statute Law (Miscellaneous amendments) Act 2017, postponing the effective date of complying with the new capital requirements to June 2020. The Group remains committed to ensuring full compliance with the regulations.

8. Changes of Directors

Wikus Olivier resigns from the Boards of Sanlam Kenya Plc and Sanlam Life Insurance Limited to take up other roles within the wider Sanlam Group. Mr Olivier was appointed a director on 16th May 2014 and also served as a member of the Audit Committee. The Board of Directors thanks Mr Olivier for his contribution to the growth of the business and wishes him the best in his future endeavours. Mugo Kibati resigned as the Sanlam Kenya Group CEO to pursue personal and professional interests. The Board remains grateful to Mr. Kibati for his dedicated service to Sanlam Kenya, having assumed the Group leadership role from February 2015.

9. Looking ahead

Building on the foundation already set to accelerate our corporate business growth and stabilize our retail business, the Board remains confident that further gains will be achieved this year. We have streamlined our processes significantly with a potential to realize key gains on customer experience and overall growth on our range of non-bank financial services.

The year 2018, will also see us moving to our new home at the Sanlam Tower, along Waiyaki Way, providing further benefits to our unified business strategy.

The financial statements presented are extracts from the books of Sanlam Kenya Plc for the year ended 31st December, 2017. The financial statements were audited by PricewaterhouseCoopers who expressed an unqualified audit opinion.

For and on behalf of the Board



Dr. John P.N. Simba, OGW, MBS, EGH (Chairman)



Mr. G. Kuria (Ag Group Chief Executive Officer)

Directors

Dr. J.P.N. Simba, G. Kuria, J. Magabe***, S. Mudhune, R. Patel, T. Botha*, J.A. Burbidge**
South African* | British** | Tanzanian***
Date:

[Life Insurance](#) | [General Insurance](#) | [Investments](#)

GROUP STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Income		
Gross premium income	6,369,847	5,224,546
Outward reinsurance premium	(953,632)	(392,341)
Net written premium	5,416,215	4,832,205
Investment income	2,285,310	2,418,532
Fair value gains	368,951	(450,341)
Fee and commissions earned	300,092	175,068
Other operating income	129,436	178,610
Total income	8,500,004	7,154,074
Claims and expenses		
Gross benefits and claims paid	(5,408,384)	(4,193,984)
Reinsurers' share of claims	583,321	204,498
Net change in investment and contract liabilities	290,581	(488,981)
Net claims and policyholders benefits	(4,534,482)	(4,478,467)
Cost of sales	(10,463)	(28,009)
Commission expense	(735,150)	(660,731)
Operating and other expenses	(1,843,601)	(1,576,197)
Impairment of financial assets	(1,125,243)	(93,397)
Total benefits, claims and other expenses	(8,248,939)	(6,836,801)
Profit before share of profit of an associate	251,065	317,273
Share of loss of an associate	(4,107)	(220)
Profit before tax	246,958	317,053
Income tax expense	(193,913)	(246,430)
Profit for the year after tax	53,045	70,623
Other comprehensive income;		
Other comprehensive income net of tax	140	23,249
Total comprehensive income for the year	53,185	93,872

Profit attributable to:

Equity holders of the parent	30,814	90,252
Non-controlling interest	22,231	(19,629)

Earnings per share

Basic	0.21	0.63
Diluted	0.21	0.63

Shares used for calculating earnings per share 144,000,000 144,000,000

GROUP STATEMENT OF FINANCIAL POSITION

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Capital and reserves		
Share capital	720,000	720,000
Revaluation reserve	15,904	15,809
Statutory reserve	1,609,658	1,862,245
Retained earnings	1,459,314	1,172,154
Non-controlling interest	247,074	162,036
Total capital and reserves	4,051,950	3,932,244
Assets		
Intangible assets	109,035	116,661
Property and equipment	157,361	177,071
Investment property	3,180,700	2,761,200
Investments in associate	17,465	21,572
Deferred tax	192,843	182,721
Loans	758,234	930,564
Deferred acquisition costs	153,049	150,427
Held to maturity financial assets	9,463,228	8,836,392
Available for sale financial assets	104,793	104,653
Fair value through profit or loss financial assets	9,934,526	10,566,547
Reinsurance assets	633,226	554,983
Land and development (inventory)	118,734	127,366
Insurance receivables	830,044	550,622
Income tax receivable	20,094	65,583
Receivable and other financial assets	451,941	798,792
Deposits with financial institutions	2,239,644	2,033,481
Cash and bank balance	301,567	463,955
Assets held for sale	1,145,000	-
Total assets	29,811,484	28,442,590
Liabilities		
Borrowings	1,030,741	-
Insurance contract liabilities	13,561,183	12,704,048
Market linked insurance liabilities	6,568,158	7,653,977
Payable under deposit administration contracts	1,433,027	1,489,407
Provision for unearned premium	655,110	474,115
Deferred tax	747,449	844,396
Provisions	51,925	51,925
Current tax liabilities	230,684	8,668
Insurance payables	759,006	802,471
Payables and other charges	722,251	481,339
Total liabilities	25,759,534	24,510,346
Net assets	4,051,950	3,932,244

GROUP STATEMENT OF CHANGES IN EQUITY

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Share capital and share premium	720,000	720,000
Opening reserves	3,050,208	2,996,074
Income attributable to shareholders	30,909	106,061
Transactions with minorities	3,759	(51,927)
Non controlling interest	247,074	162,036
Balance at end of the year	4,051,950	3,932,244

ABRIDGED GROUP CASH FLOW STATEMENT

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Cash flow from operating activities	(1,903,215)	(2,337,432)
Cash from investing activities	850,669	882,375
Cash flows from financing activities	1,096,321	36,325
Net increase in cash resources	43,775	(1,418,732)
Cash resources at the beginning of the year	2,497,436	3,916,168
Cash resources at the end of the year	2,541,211	2,497,436

Sanlam Kenya Results

AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31ST DECEMBER, 2017

GROUP EMBEDDED VALUE

The embedded value represents an estimate of the value of the Group. It excludes the value attributable to minority interests and goodwill attributable to future new business.

The embedded value comprises:

- The value of the shareholders' equity net of the cost of the Capital Adequacy Requirement (CAR); and
- The value of the in-force business.

The value of the in-force is the present value of future profits arising from business in force at the valuation date, discounted at the risk discount rate.

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Embedded Value Results		
Shareholders' equity, excluding goodwill	3,804,883	3,770,208
Fair value adjustments to net assets	(926,708)	(652,883)
Net value of in-force	1,564,567	1,572,946
Gross value in-force	2,931,951	2,760,199
Tax provision	(879,585)	(828,060)
Cost of CAR	(487,799)	(359,193)
Embedded value at end of period	4,442,742	4,690,271
Embedded value earnings		
Embedded value at end of period	4,442,742	4,690,271
Embedded value at beginning of period	4,690,271	5,220,391
Change in embedded value	(247,529)	530,120
Dividends paid	-	-
Embedded value earnings	(247,529)	530,120
These earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	(273,825)	(17,972)
Roll forward	559,011	501,687
Investment return on free assets	190,301	59,770
Expected return on life business in force	368,710	441,917
Change over the period	(532,715)	(1,013,835)
Value of new business	45,099	(88,203)
Change in assumptions and methodology	(147,165)	(466,316)
Experience variations	(157,669)	(15,242)
Increase in NAV for other subsidiaries & associates	(272,980)	(444,074)
Total earnings	(247,529)	(530,120)
Value of new business		
Value at point of sale (gross of tax)	101,829	(82,541)
Tax on value at point of sale	(30,549)	24,762
Cost of CAR at point of sale	(26,181)	(30,424)
Value of new business	45,099	(88,203)
Assumptions		
The main assumptions used are as follows:		
1. Economic assumptions	% p.a	% p.a
Risk discount rate	17.5	17.8
Overall investment return	13.4	13.5
Expense inflation rate	9.5	9.8
2. Other assumptions		
The assumptions for future mortality, persistency and premium escalation were based on recent experience adjusted for anticipated future trends.		

Notes	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
a) Changes in assumptions and methodology		
Expenses	(125,364)	(227,970)
Mortality	14,312	4,899
Persistency	(76,586)	21,458
Commission	95,076	(13,567)
Bonus rates	287,668	(150,993)
Premium collection	-	-
Total operational	195,106	(366,173)
Modelling changes	(247,033)	(80,045)
Investment return	(112,357)	(120,168)
Risk discount rate	17,119	100,070
Total	(147,165)	(466,316)
b) Experience variations		
Mortality and morbidity	42,416	(17,242)
Persistency	(5,228)	835
Expenses and commission	51,517	3,942
Tax Variations	(25,232)	(61,983)
Other	(75,092)	205,053
Total operational	(11,619)	130,605
Investment variances	(146,050)	(145,847)
Total	(157,669)	(15,242)
c) Fair value adjustments		
Adjustment to fair value of subsidiary	(926,708)	(652,883)
d) Increase in NAV for other subsidiaries		
NAV Increase for other subsidiaries & associates	(272,980)	(444,074)

SANLAM LIFE INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Income		
Gross written premium	4,326,932	4,396,339
Outward reinsurance premium	(399,323)	(212,075)
Net written premium	3,927,609	4,184,264
Investment income	2,161,523	2,267,133
Fair value gains/(losses)	553,661	(91,843)
Fee and commissions earned	117,159	40,246
Other operating income	(1,122,529)	(67,497)
Total income	5,637,423	6,332,303
Outgos		
Gross benefits and claims paid	(4,165,753)	(3,685,952)
Reinsurers' share of claims	130,037	90,054
Gross change in contract liabilities	251,833	(789,009)
Change in contract liabilities ceded to reinsurers	19,276	41,091
Net claims and policyholders benefits	(3,764,607)	(4,343,816)
Commission payable	(540,589)	(569,139)
Operating and other expenses	(855,018)	(789,408)
Total outgo	(5,160,214)	(5,702,363)
Profit for the year before tax	477,209	629,940
Income tax expense	(169,541)	(217,707)
Profit for the year after tax	307,668	412,233
Other comprehensive income		
Total other comprehensive income for the period	-	-
Total comprehensive income for the year	307,668	412,233

STATEMENT OF MOVEMENT IN DEPOSIT ADMINISTRATION & INVESTMENT CONTRACT LIABILITIES FOR THE YEAR ENDED 31ST DECEMBER, 2017

	31 Dec 2017 KShs. 000	31 Dec 2016 KShs. 000
Amounts payable under deposit administration contract		
At 1 January	1,489,410	1,434,575
Pension Fund deposits received	411,798	273,305
Surrenders & annuities paid	(580,520)	(416,858)
Interest payable to policyholders	112,339	198,388
As at 31 December	1,433,027	1,489,410
Amounts payable under investmetns contract liabilities		
At 1 January	7,653,977	8,269,515
Deposits received	910,276	1,039,814
Maturities/payments to policyholders	(2,159,987)	(2,339,102)
Interest payable to policyholders	163,892	683,750
As at 31 December	6,568,158	7,653,977

SANLAM LIFE - STATEMENT OF FINANCIAL POSITION

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Equity		
Share capital	200,000	200,000
Share premium	30,260	30,260
Statutory reserve	1,609,660	1,862,245
Retained earnings	560,253	-
Shareholders' funds	2,400,173	2,092,505
Assets		
Intangible assets	86,160	100,481
Property and equipment	126,521	138,418
Investment properties	2,664,000	2,244,500
Held to maturity financial assets	9,217,653	8,596,592
At fair value through profit and loss	8,971,191	9,492,205
Mortgage loans	190,182	339,445
Reinsurance assets	153,572	134,296
Income tax receivable	-	18,182
Insurance receivable	209,064	206,058
Other receivables	222,534	888,699
Deferred acquisition costs	98,814	104,423
Cash at bank and in hand	205,428	333,674
Deposits with financial institutions	2,161,434	1,876,823
Assets held for sale	605,000	-
Total assets	24,911,553	24,473,796
Liabilities		
Insurance contract liabilities	12,123,092	11,289,106
Market linked insurance contract liabilities	6,568,158	7,653,977
Payable under deposit administration contracts	1,433,027	1,489,410
Deferred tax	747,449	844,395
Insurance payable	695,588	724,629
Income tax payable	222,530	-
Other payables	721,536	379,774
Total liabilities	22,511,380	22,381,291
Net assets	2,400,173	2,092,505

KEY RATIOS

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Capital adequacy ratio (capital available/required minimum capital)	133%	133%
Claims ratio (claims incurred/net written premium)	103%	86%
Expense ratio (total management expenses/gross written premium)	20%	18%
Retention ratio (net written premium/gross written premium)	91%	95%
Commission ratio (gross commission/gross written premium)	12%	13%
Solvency ratio (actual solvency/required solvency)	178%	148%

SANLAM GENERAL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Income		
Gross written premium	2,154,915	1,002,200
Gross earned premium	2,042,914	828,207
Less: Reinsurance premium ceded to reinsurers	(554,307)	(180,266)
Net earned premium	1,488,607	647,941
Investment income	61,472	901
Commissions earned	133,096	34,709
Total income	1,683,175	683,551
Outgos		
Claims and policyholder benefits	769,876	134,653
Operating and other expenses	616,370	481,613
Commissions payable	194,561	91,592
Total outgos	1,580,807	707,858
Profit/(loss) before income tax	102,368	(24,307)
Income tax (expense)/credit	(33,668)	(12,485)
Profit/(loss) for the year	68,700	(36,792)
Other comprehensive income:		
Net gains on available for sale financial assets	140	23,249
Total comprehensive income/(loss) for the year	68,840	(13,543)

STATEMENT OF FINANCIAL POSITION

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Equity		
Share capital	788,600	600,284
Share premium	102,760	102,760
Revaluation reserve	77,751	77,611
Accumulated losses	(205,593)	(274,293)
Total equity	763,518	506,362
Assets		
Property and equipment	19,123	23,604
Intangible assets	20,279	11,739
Deferred income tax	96,589	117,296
Investment property	516,700	516,700
Held for sale investment property	540,000	540,000
Unquoted equity investments - available for sale	104,102	104,095
Quoted equity investments - available for sale	691	558
Receivables arising out of reinsurance arrangements	283,782	72,612
Receivables arising out of direct insurance arrangements	337,753	272,021
Reinsurers' share of insurance contract liabilities	479,653	420,687
Other receivables	159,622	28,898
Deferred acquisitions cost	54,235	46,004
Government securities held to maturity	225,575	224,800
Government securities available for sale	163,335	-
Secured loans to employees	8,022	9,578
Current income tax asset	-	9,605
Corporate bonds held to maturity	20,000	15,000
Deposits with financial institutions	78,210	154,759
Cash and bank balances	61,348	71,276
Total assets	3,169,019	2,639,232
Liabilities		
Insurance contract liabilities	1,438,092	1,414,942
Unearned premium reserve	655,110	474,114
Creditors arising from reinsurance arrangements	63,418	77,844
Current income tax payable	3,358	-
Other payables	245,130	165,577
Dividends payable	393	393
Total liabilities	2,405,501	2,132,870
Net assets	763,518	506,362

KEY RATIOS

	31 Dec 2017 KShs. '000	31 Dec 2016 KShs. '000
Capital adequacy ratio (capital available/required minimum capital)	155%	93%
Claims ratio (claims incurred/net written premium)	52%	21%
Expense ratio (total management expenses/gross written premium)	29%	48%
Solvency ratio (actual solvency/required solvency)	108%	93%
Retention ratio (net written premium/gross written premium)	74%	82%
Commission ratio (gross commission/gross written premium)	9%	9%

Sanlam Kenya Results

AUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31ST DECEMBER 2017

SANLAM INVESTMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Income		
Fund management fees	113,366	155,848
Other income	-	299
Total income	113,366	156,147
Expenses		
Direct expenses	14,642	15,962
Legal and professional fees	2,471	100
Personnel costs	66,703	51,717
Rent expenses	1,311	1,258
Operational and administration expenses	41,809	39,085
Depreciation expense	1,081	1,980
Total expenses	128,017	110,102
(Loss)/Profit before tax	(14,651)	46,045
Income tax expense	(2,086)	(14,949)
(Loss)/Profit after tax	(16,737)	31,096
Other comprehensive income		
Total other comprehensive income for the period	-	-
Total comprehensive (loss)/income for the year	(16,737)	31,096

STATEMENT OF FINANCIAL POSITION

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
Assets		
Non-current assets		
Equipment	4,140	5,221
Intangible assets	2,577	2,936
Deferred tax	2,049	4,135
Total non-current assets	8,766	12,292
Current assets		
Cash and cash equivalents	1,777	50,549
Receivables and prepayments	97,465	81,964
Total current assets	99,242	132,513
Total assets	108,008	144,805
Equity and liabilities		
Share capital	20,000	20,000
Retained earnings	15,403	32,140
Total equity	35,403	52,140
Current liabilities		
Payables and accrued expenses	67,811	50,494
Proposed dividends	-	36,000
Current income tax	4,794	6,171
Total current liabilities	72,605	92,665
Total liabilities	72,605	92,665
Total equity and liabilities	108,008	144,805

OTHER DISCLOSURES

	31 Dec 2017	31 Dec 2016
	KShs. '000	KShs. '000
1. Capital strength		
a. Paid up capital	20,000	20,000
b. Minimum capital required	10,000	10,000
(a-b) Excess shareholders' funds	10,000	10,000
2. Shareholders' funds		
a. Total shareholders' funds	35,403	52,140
b. Minimum shareholders' funds required	10,000	10,000
(a-b) Excess shareholders' funds	25,403	42,140
3. Liquidity		
a. Working capital	(33,791)	75,849
b. Minimum working capital required	5,808	5,000
(a-b) Excess working capital	(39,599)	70,849
4. Ratio of unsecured advances to shareholders' funds		
a. Ratio as computed	-	-
b. Maximum allowable limit	10%	10%
5. Ratio of borrowings to paid up capital		
a. Ratio as computed	-	-
b. Maximum allowable limit	20%	20%