

Sanlam Kenya Results

Audited Financial Statements for the period ended 31 December 2018

1. Message from the Directors

The Board of Directors of Sanlam Kenya PLC ("Sanlam") announces the Group's financial results for the year ended 31st December 2018.

2. Financial performance 2018

The operating environment was challenging. Several institutions in various sectors came under financial distress triggering investor losses from all sectors of the economy. Insurance industry revenues also came under significant pressure in the year under review with both the short and long term business segments reporting a reduction in year on year revenue growth.

As per the 2018 industry statistics in the first nine months of 2018, the short-term insurance segment recorded year on year revenue growth of 1.7% compared to 7.2% reported in the previous year. The same trend reflected in underwriting performance with the segment reporting underwriting losses for the third consecutive year at KES. 2.8 billion compared to KES. 0.75 billion in the previous year. The Long-term business revenues as well grew by 3.9% compared to a prior year growth of 16.9%.

Sanlam's performance for the year was characterised by a significant improvement in its short-term insurance business which reported a 2% growth in Gross Written Premiums and 68% improvement in earnings after tax for the period under review. The long-term business revenues reflected the industry trend as Gross Written Premium remained flat compared to the previous year. Several institutions in which the Group's long term insurer had invested came under financial distress which led to the impairment of approximately KES. 1.14 billion in investments, primarily debt notes and equity in Kaluworks, Real People and Athi River Mining. Further, the Company's reserving basis was revised, reflecting a more prudent basis prescribed by the regulator, which led to an additional KES. 0.65 billion reduction in earnings. Though these events are non-recurrent in nature, their overall impacts led to a net Group consolidated loss after tax result of KES. 1.98 billion compared to a prior year profit after tax position of KES. 53 million.

The Group's insurance subsidiaries continue to reflect positive underwriting performance and the consolidated business is expected to return to profit in the forthcoming year 2019. Recovery of investments from institutions under distress remains a top priority for the business in the year 2019.

3. Dividends

The Board of Directors will not be recommending the payment of dividends for the year ended 31 December 2018 (2017:Nil) at the forthcoming Annual General Meeting scheduled for Thursday 9th May 2019.

The Group Statement of Financial Position, Comprehensive Income, Statement of Changes in Equity and Abridged Cashflow Statement are an extract of the Group's audited financial statements as audited by PricewaterhouseCoopers and have received an unqualified opinion, dated 5th March, 2019.

The financial statements below were approved by the board of directors on 4th March, 2019 and signed on its behalf by;

Dr. JPN Simba, EGH, MBS, OGW
(Chairman)

Directors

Dr JPN Simba, P Tumbo, J Magabe**, S Mudhune, R Patel, N Bezuidenhout*, C Foord*, F Britz*

*South African **Tanzanian

Date: 4 March 2019

Mr. P Tumbo
(Group Chief Executive Officer)

GROUP STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Income		
Gross premium income	6,345,825	6,369,847
Outward reinsurance premium	(974,017)	(953,632)
Net written premium	5,371,808	5,416,215
Fees and commission income	268,010	300,092
Investment income	2,183,767	2,285,310
Fair value (losses)/gains	(1,983,581)	368,951
Impairment of financial assets	(12,795)	(1,125,243)
Other operating revenue	86,214	129,436
Total income	5,913,423	7,374,761
Claims and expenses		
Gross benefits and claims paid	(5,544,822)	(5,408,384)
Reinsurers' share of claims	660,314	583,321
Net change in investment and contract liabilities	(239,674)	290,581
Net claims and policyholders benefits	(5,124,182)	(4,534,482)
Fee and commission expense	(715,134)	(735,150)
Cost of sales - plots	(11,697)	(10,463)
Other operating and administrative expenses	(2,000,047)	(1,843,601)
Finance costs	(191,863)	-
Total benefits, claims and other expenses	(8,042,923)	(7,123,696)
(Loss)/Profit before share of profit of an associate	(2,129,500)	251,065
Share of loss of an associate	314	(4,107)
(Loss)/Profit before tax	(2,129,186)	246,958
Income tax expense	149,760	(193,913)
(Loss)/Profit for the year after tax	(1,979,426)	53,045
Other comprehensive income;		
Other comprehensive income net of tax	-	-
Total comprehensive (loss)/income for the year	(1,979,426)	53,045
(Loss)/Profit attributable to:		
Equity holders of the parent	(2,017,061)	30,814
Non controlling interest	37,635	22,231
Earnings Per Share		
Basic	(14.01)	0.21
Diluted	(14.01)	0.21
Shares used for calculating earnings per share	144,000,000	144,000,000

GROUP STATEMENT OF FINANCIAL POSITION

	2018 KShs. '000	2017 KShs. '000
ASSETS		
Property and equipment	232,514	157,361
Investment properties	3,440,700	3,180,700
Intangible assets	98,721	109,035
Goodwill	-	-
Investment in associate	17,779	17,465
Deferred income tax	236,551	192,843
Financial assets		
Equity securities at fair value through profit or loss	2,579,271	3,505,766
Government securities		
At amortized cost	-	9,463,228
At fair value through P&L	15,167,215	3,811,761
Corporate bonds		
At fair value through P&L	1,254,774	2,596,999
At amortized cost	14,746	20,000
Available for sale financial assets	-	104,793
Loans	504,851	758,234
Deferred acquisition costs	151,292	153,049
Reinsurance share of insurance contract liabilities	819,376	633,226
Land and development	109,189	118,734
Current income tax	52,341	20,094
Insurance receivables	843,841	830,044
Receivables and other financial assets	449,362	451,941
Deposits with financial institutions	2,275,478	2,239,644
Cash and bank balances	403,629	301,567
Non-current assets held for sale	450,000	1,145,000
TOTAL ASSETS	29,101,630	29,811,484
CAPITAL AND RESERVES		
Issued share capital	720,000	720,000
Revaluation reserves	-	15,904
Statutory fund	676,720	1,609,658
Retained earnings	(68,620)	1,459,314
Shareholder's funds	1,328,100	3,804,876
Non-controlling interests	258,938	247,074
TOTAL CAPITAL AND RESERVES	1,587,038	4,051,950
LIABILITIES		
Borrowings	3,497,432	1,030,741
Insurance contract liabilities	14,816,647	13,561,183
Investment contract liabilities	5,340,462	6,568,158
Payables under deposit administration contracts	1,107,372	1,433,027
Unearned premium	899,653	655,110
Deferred income tax	360,397	747,449
Provisions	51,925	51,925
Current income tax	47,322	230,684
Insurance payables	688,646	759,006
Payables and other charges	704,736	722,251
TOTAL LIABILITIES	27,514,592	25,759,534
TOTAL EQUITY AND LIABILITIES	29,101,630	29,811,484
GROUP STATEMENT OF CHANGES IN EQUITY		
	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Share capital and Share premium	720,000	720,000
Opening reserves	3,084,876	3,050,208
Changes on initial application of IFRS 9 at 1 January 2018	(460,616)	-
Restated balance as at 1 January 2018	3,344,260	3,770,208
Income attributable to shareholders	(2,017,061)	30,909
Transactions with minorities	901	3,759
Non controlling interest	258,938	247,074
Balance at end of the year	1,587,038	4,051,950
ABRIDGED CASH FLOW STATEMENT		
	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Cash flow from operating activities	(3,041,100)	(1,903,215)
Cash from investing activities	904,168	850,669
Cash flows from financing activities	2,274,828	1,096,321
Net increase in cash resources	137,896	43,775
Cash resources at the beginning of the year	2,541,211	2,497,436
Cash resources at the end of the year	2,679,107	2,541,211
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:		
a) the value of the shareholders' equity net of the cost of the Capital Adequacy Requirement (CAR); and		
b) 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.		
Embedded Value Results		
Shareholders' equity, excluding goodwill	313,239	3,804,883
Fair Value Adjustments to Net Assets	-	(926,708)
Net value of in-force	1,832,062	1,564,567
Gross value in-force	3,316,110	2,931,951
Tax provision	(994,832)	(879,585)
Cost of CAR	(489,216)	(487,799)
Embedded value at end of period	2,145,301	4,442,742
Embedded value earnings		
Embedded value at end of period	2,145,301	4,442,742
Embedded value at beginning of period	4,442,742	4,690,271
Change in embedded value	(2,297,441)	(247,529)
Dividends paid	-	-
Embedded value earnings	(2,297,441)	(247,529)

Sanlam Kenya Results

Audited Financial Statements for the period ended 31 December 2018

GROUP EMBEDDED VALUE (continued)

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
The embedded value earnings can be analysed as follows:		
Adjustment to fair value of subsidiary	(84,178)	(273,825)
Roll forward	(513,460)	559,011
Investment return on free assets	(861,587)	190,301
Expected return on life business in force	348,127	368,710
Change over the period	(1,699,803)	(532,715)
Value of new business	(90,202)	45,099
Change in assumptions and methodology	39,126	(147,165)
Experience variations	(100,905)	(157,669)
Decrease in NAV for other subsidiaries & associates	(1,547,822)	(272,980)
Total earnings	(2,297,441)	(247,529)
Value of new business		
Value at point of sale (gross of tax)	(78,285)	101,829
Tax on value at point of sale	23,486	(30,549)
Cost of CAR at point of sale	(35,403)	(26,181)
Value of new business	(90,202)	45,099

SANLAM LIFE INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Income		
Gross written premium	4,310,928	4,326,932
Outward reinsurance premium	(374,427)	(399,323)
Net written premium	3,936,501	3,927,609
Fees and commission income	122,546	117,159
Investment income	2,083,059	2,161,523
Fair value (losses)/gains	(1,116,902)	553,661
Impairment of financial assets	(3,333)	(1,125,243)
Other operating revenue	1,192	2,714
Total Income	5,023,063	5,637,423
Outgos		
Gross benefits and claims paid	(4,310,768)	(4,165,753)
Reinsurers' share of claims	159,399	130,037
Gross change in contract liabilities	(243,808)	251,833
Change in contract liabilities ceded to reinsurers	4,134	19,276
Net claims and policyholders benefits	(4,391,043)	(3,764,607)
Commission payable	(486,259)	(540,589)
Operating and other expenses	(924,790)	(855,018)
Finance costs	(73,600)	-
Total outgo	(5,875,692)	(5,160,214)
(Loss)/Profit for the year before tax	(852,629)	477,209
Income tax expense	225,969	(169,541)
(Loss)/Profit for the year after tax	(626,660)	307,668
Other comprehensive income		
Total other comprehensive income for the period	-	-
Total comprehensive (loss)/income for the year	(626,660)	307,668

STATEMENT OF FINANCIAL POSITION

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
ASSETS		
Intangible assets	83,670	86,160
Property and equipment	150,510	126,521
Investment properties	2,924,000	2,664,000
Deferred acquisition costs	71,958	98,814
Financial assets		
Equity securities at fair value through profit or loss	2,157,370	3,400,973
Government securities:		
At amortised cost	-	9,217,653
At fair value through profit or loss	14,322,898	2,973,219
Corporate bonds at fair value through profit or loss	1,254,774	2,596,999
Policy loans	309,745	-
Mortgage loans	99,780	190,182
Reinsurers' share of insurance contract liabilities	157,706	153,572
Current income tax	4,946	-
Insurance receivables	235,288	209,064
Other receivables	208,004	222,534
Deposits with financial institutions	1,644,626	2,161,434
Cash and bank balances	248,900	205,428
Non-current assets held for sale	450,000	605,000
Total Assets	24,324,175	24,911,553
Capital and reserves		
Share capital	843,138	200,000
Share premium	30,260	30,260
Statutory fund	676,720	1,609,660
Retained earnings	560,253	560,253
Total capital and reserves	2,110,371	2,400,173
Liabilities		
Insurance contract liabilities	13,594,596	12,123,092
Investment contract liabilities	5,340,462	6,568,158
Payable under deposit administration contracts	1,107,372	1,433,027
Deferred income tax	360,397	747,449
Current income tax	-	222,530
Insurance payables	662,404	695,588
Other payables	428,521	721,536
Borrowings	720,052	-
Total Liabilities	22,213,804	22,511,380
Total equity and liabilities	24,324,175	24,911,553

KEY RATIOS

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Capital adequacy ratio (risk based capital)	103%	100%
Claims ratio (net claims incurred/net written premium)	105%	103%
Expense ratio (total management expenses/gross written premium)	21%	20%
Retention ratio (net written premium/gross written premium)	91%	91%
Commission ratio (gross commission/gross written premium)	11%	12%

SANLAM GENERAL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Income		
Gross written premium	2,202,961	2,154,915
Gross earned premium	2,034,897	2,042,914
Less: Reinsurance premium ceded to reinsurers	(599,590)	(554,307)
Net earned premium	1,435,307	1,488,607
Investment income	162,155	61,472
Net impairment on financial assets	(9,462)	-
Commissions earned	145,464	133,096
Total income	1,733,464	1,683,175
Outgos		
Claims and policyholder benefits	733,139	769,876
Operating and other expenses	577,828	616,370
Commissions payable	228,875	194,561
Total outgos	1,539,842	1,580,807
Profit/(loss) before income tax	193,622	102,368
Income tax (expense)/credit	(77,955)	(33,668)
Profit/ (loss) for the year	115,667	68,700
Other comprehensive income:		
Net gains on available for sale financial assets	-	140
Total comprehensive income/ (loss) for the year	115,667	68,840

STATEMENT OF FINANCIAL POSITION

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Capital and reserves		
Share capital	1,028,998	788,600
Share premium	100,362	102,760
Revaluation reserve	-	77,751
Accumulated losses	(89,246)	(205,593)
Total Capital and reserves	1,040,114	763,518
Assets		
Property and equipment	59,996	19,123
Intangible assets	15,051	20,279
Deferred income tax	135,982	96,589
Investment property	516,700	516,700
Held for sale investment property	-	540,000
Unquoted equity investments - available for sale	-	104,102
Quoted equity investments - at fair value through P&L	568	691
Receivables arising out of reinsurance arrangements	294,127	283,782
Receivables arising out of direct insurance arrangements	314,426	337,753
Reinsurers' share of insurance contract liabilities	661,670	479,653
Other receivables	171,182	159,622
Deferred acquisitions cost	79,334	54,235
Government securities at amortized cost	-	225,575
Government securities at fair value through P&L	844,317	163,335
Secured loans to employees	2,050	8,022
Current income tax asset	-	-
Corporate bonds at amortized cost	14,746	20,000
Deposits with financial institutions	273,728	78,210
Cash and bank balances	144,829	61,348
Total assets	3,528,706	3,169,019
Liabilities		
Insurance contract liabilities	1,222,051	1,438,092
Unearned premium reserve	899,653	655,110
Creditors arising from reinsurance arrangements	26,242	63,418
Current income tax payable	41,272	3,358
Other payables	299,374	245,130
Dividends payable	-	393
Total liabilities	2,488,592	2,405,501
Net assets	1,040,114	763,518

KEY RATIOS

	31 Dec 2018 KShs. '000	31 Dec 2017 KShs. '000
Capital adequacy ratio (risk based capital)	122%	77%
Claims ratio (net claims incurred/net written premium)	51%	52%
Expense ratio (total management expenses/gross written premium)	26%	29%
Retention ratio (net written premium/gross written premium)	73%	74%
Commission ratio (gross commission/gross written premium)	10%	9%