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LOCAL EQUITY REPORT

GENERAL ACCIDENT INSURANCE COMPANY

Barita investments Limited
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Barita
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Company Overview

General Accident Insurance Company Limited (GENAC), incorporated and domiciled in Jamaica, is an 80%-owned subsidiary of Musson Jamaica Limited (a private holding company with other recognizable holdings such as Seprod and Geddes Grant). The Company is licensed to operate as a general insurance company under the Insurance Act, 2001. Its principal business activities are the underwriting of commercial and personal property and casualty insurance. The company currently operates in three (3) countries, Jamaica, and through its subsidiaries, Trinidad and Barbados.

Stock	GENAC
Close Price	J$5.44
Estimated Fair Value	J$6.57
Potential Upside	**20.8%**
Dividend Yield	3.98%
Total Return	**24.8%**
Year to Date Return	-12.12%
Trailing P/B	1.98x
Trailing P/E	17.55x
Recommendation	**OVERWEIGHT**
Date: October 29, 2021	

Analyst insight

GENAC is an established general insurer in the Jamaican market and has consistently shown robust gross premium growth, underwriting performance, and the ability to deepen market penetration efficiently. Currently, the Company is one of the largest insurers in Jamaica with over 20% market share, driven by its strong position in the property insurance space and growing market share in the motor insurance segment through its AutoSmart brand. As part of its strategic mandate, the company has targeted both organic and inorganic growth and has begun to execute this, most recently through the acquisition of Motor One Insurance in Trinidad which was subsequently rebranded, "GENAC TT". The insurance market in Trinidad and Barbados combined is currently larger than that of Jamaica and in the case of Trinidad, the insurance and financial services sector has been resilient throughout the pandemic; representing one of the few sectors that have expanded despite the general slowdown the Trinidad and Tobago economy has faced in recent years. These acquisitions have however resulted in some short-term cost increases associated with integration and operationalization. We, however, expect these costs to normalize over time. The 2021 year should also benefit from the group being able to expand its product offerings in Trinidad. This would allow GENAC to expand into segments in which the Company has a competitive advantage such as property insurance.

Several factors would have contributed to our favorable view on GENAC. We see several possible tailwinds that may bode well for both the insurance sector as a whole and GENAC specifically. Namely, the increasing domestic interest rates. This should support improved investment income of insurance companies like GENAC who would be able to generate greater returns on their insurance float. This, coupled with greater operational efficiency after consolidating regional companies, should further aid profitability going forward. We also note that GENAC will continue to benefit from its relationship with the Musson Group which will allow them to form strategic relationships with both the group's other entities and customers. This will be particularly useful as the company expands into regional markets as the Musson group is diverse with stakes in public and private business across the Caribbean. The industry will also benefit greatly from an improvement in economic activity in the region as the economies rebound from the downturn caused by the pandemic in early 2020. Our fair value estimate of the Company reflects these positive tailwinds and demonstrates that the Company is currently undervalued. We believe the company represents a good long-term buy and gives investors not only the opportunity to own one of the leading property and general insurers domestically but also one that is growing rapidly and aims to build out a greater regional presence. On these bases, we recommend that investors **OVERWEIGHT** GENAC.

Subsidiaries

General Accident Insurance Company Major Subsidiaries	Principal Activities	Country	**Ownership**	**Partner**
GenacTT	General insurance (Motor)	Trinidad	65%	Micon Marketing Ltd
General Accident Barbados	General insurance	Barbados	80%	BCDL Holdings

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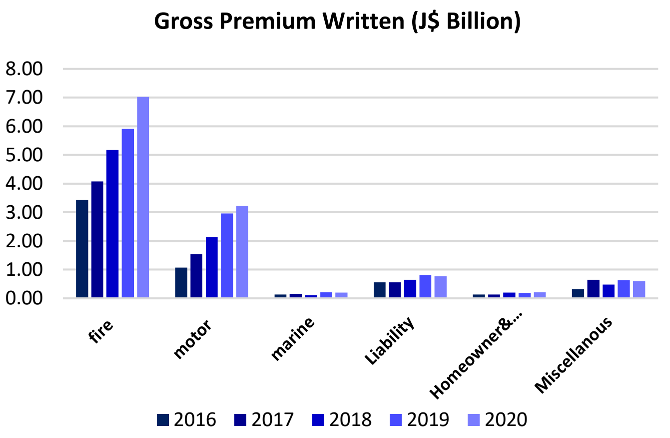
The company first expanded outside Jamaica in 2019 with the acquisition of a 55% stake in Motor One Insurance. After the initial purchase, General Accident increased its stake in Motor One Insurance to 65% effective June 22, 2020. The Motor One subsidiary was also rebranded to General Accident Insurance Trinidad and Tobago. General Accident also operates in the Barbadian Market as it was granted a Class 2 insurance license on the island in 2020 where it currently operates through a subsidiary, General Accident Barbados, where it has an 80% ownership, with the remaining 20% being owned by Barbadian Consortium BCDL Holdings Limited.

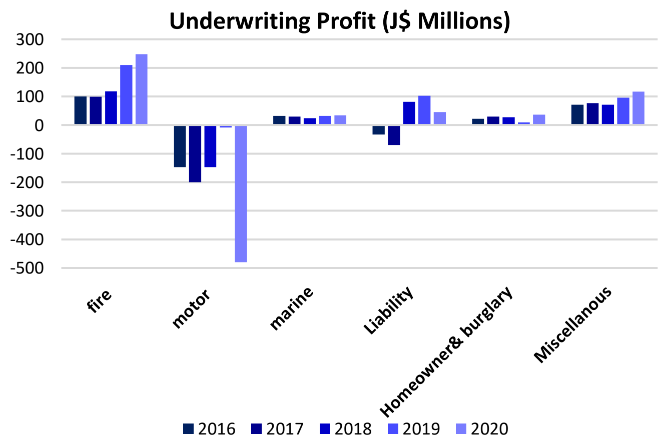
Business Segments

The Group is organized into six operating segments which represent the different risks that are underwritten by the Group and are as follows:

1. **Motor:** Losses involving motor vehicles which include liabilities to third parties.
2. **Fire and allied perils:** Loss, damage, or destruction to insured property as specified on the policy schedule.
3. **Marine:** Loss or damage to goods from perils of the sea or other perils relating to transit from destination to destination by sea, air, or land and from warehouse to warehouse.
4. **Liability:** Legal liability of the insured to third parties for accidental injury, death, and/or loss of or damage to property occurring in connection with the insured's business. In the case of employee liability, this is a legal liability of the insured to pay compensation to its employees in respect of death, injury, or disease sustained during and in the course of their employment.
5. **Homeowners and Burglary:** Loss, damage, or destruction to insured residential property resulting from fire and allied perils, burglary, theft, or accidental damage. This includes liability to third parties and domestic premises. The burglary aspect covers damage or loss to the insured homeowner involving forcible and/or violent entry into or exit from the building causing property damage.
6. **Miscellaneous Accidents**: This segment includes fidelity guarantee, insurance for goods in transit, engineering and machinery breakdown, loss of money including from holdups, coverage of plate glass, and personal accident.

The relative size of the different business segments can be seen in the figures below which decompose both gross premiums written and underwriting profits into the varying business segments. From this, we can see that as of December 2020 the largest segment based on gross premiums was the Fire and Allied property segment with a 55.1% share of gross premiums followed by Motor and Liability at 27.6% and 7.7%, respectively. Notably, GENAC has been able to increase gross premiums written over the last 5 years in its major business segments of Fire and Motor insurance with each segment growing at a Compounded Annual Growth Rate (CAGR) of approximately 19.7% and 31.8%, respectively. While the other segments have also enjoyed double-digit





CAGRs over the past five years (except for the Liabilities business segment), the two largest segments have seen the most stable

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and consistent annual increase. General Accident has historically considered property insurance as its competitive advantage but has also attempted to make inroads into motor insurance through the launch of Autosmart in 2017 which was primarily aimed at public passenger vehicles and other segments of the motor market where GENAC sees gaps in service.

Looking at underwriting performance, we see that 2020 was a particularly difficult year for **the motor segment** which had an underwriting loss of J$479.3 million, down from a loss of J$8.4 million in 2019 which was primarily driven by higher claim expenses. A major reason for this was the consolidation of higher claim expenses of the recently acquired Trinidad operation which operated at a loss in 2020 (67.5% of the increase in group claims expense of 444.7 million in 2020 was attributed to subsidiaries). In contrast to this, **the Fire segment** continued to realize an underwriting profit despite the impact of COVID-19, realizing a profit of J$248.0 million and a CAGR over the five years of 25.4%. Of note, the Company had an approximate market share of 20.6% as of December 2019, relative to 19% in 2019 and up from 10% in 2010 just before its September 2011 Initial Public Offer (IPO).

In the "Total Market Share" table, we outline the market share of GENAC and several competitors within the general insurance business. Of note, the growth in market share of GENAC coincides with a loss in market share of Key Insurance, GK insurance, and Advantage Insurance. We expect that with the turnaround of Key insurance, post-acquisition by Grace Kennedy, GENAC will face more competition, particularly in the domestic motor segment. Notwithstanding, it is our view that some of the impacts of this competition will be mitigated by the company's regional expansion (Trinidad and Barbados). We also believe that that the strong growth in the domestic motor segment will continue in the medium term despite increased competition, particularly when we consider the historical performance of the motor segment for GENAC which has shown at a 20.0% CAGR since the introduction of their Autosmart motor brand in 2017.

Total Market Share

General Insurers	2016	2017	2018	2019
GENAC	14.8%	17.1%	19.0%	20.6%
Advantage	13.6%	12.6%	12.6%	11.2%
GK	12.0%	11.2%	11.9%	11.6%
Key	2.8%	3.5%	3.9%	2.7%
Iron Rock	1.1%	1.0%	1.2%	1.3%

Business Strategy

The company has as its core focus, its goal of becoming the leading general insurer both domestically and regionally. In this regard, we have seen the company make significant progress on its objective. GENAC has grown its market share domestically from 14.8% in 2016 to 20.6% in 2019, based on gross premiums written (for reference this is up from an 8.4% market share in 2010 pre-IPO). The company has had a strategic plan for gaining more market share in the domestic motor space which was executed through the Autosmart brand as noted earlier, which has subsequently aided them to grow the motor business by a CAGR of 20.0%. In addition to this, after prudently improving their domestic market share, in 2019 the company started on their objective of being a dominant player regionally by starting operations in Trinidad and Later on early 2020, Barbados. On this front, we have seen noticeable improvements as the gross premiums written combined for these overseas subsidiaries have more than doubled in the latest 6 months 2021, with gross premiums written of $412 million compared to $204 million in the same period of 2020. This has shown that management has had a history of setting and meeting major objectives and by current indications is on track to further establish the company regionally as was intentioned.

Important Developments

MCT Ratio

Currently, the insurance sector is regulated by the Financial Services Commission of Jamaica (FSC) and there have been two noteworthy developments in the sector that involve the regulator. **The first** is the issue of capital restrictions being too stringent, specifically the MCT ratio. This ratio is defined as the insurer's capital available divided by minimum capital required as calculated at the target level for specific risks. Currently, the FSC requires an MCT ratio of at least 250%. This compares, for example, to the regulatory minimum of 100% in Canada (with a supervisory minimum of 150% which may be adjusted downwards to the 100% minimum on a case-by-case basis based on the institution's risk profile).

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In 2017 the FSC carried out a quantitative impact study to determine the optimal level of the MCT to balance growth and stability of the insurance industry. They thus allowed for the relaxation of the MCT for two years from 250% to 150%. During this period, GENAC took advantage of this relaxation and had an MCT of 211.6% in 2018 and 225.2% in 2019 as they took on additional strategic investments. Currently, the main concern coming from market players relating to the setting of the MCT ratio is that it is too restrictive, compared to other markets worldwide. The FSC is currently in the process of proposing changes to the investment and capital regulations. A recommendation for changes to the calculation of the capital adequacy ratio for general insurers is currently being reviewed by the finance ministry and legislation is currently being drafted for either a new minimum capital test or an adjustment to the old.

We expect that if changes are to be made to the capital requirement ratios, it is likely to be on the side of being less strict. This is due to the initial trial period having been primarily done to test the effects of lower requirements as well as industry leaders, and technocrats (i.e from the Economic Growth council based on the call to action report in 2016) would have erred on the side of less strict, which would have spurred the FSC's trial and recommendation originally. The impact of less strict requirements would directly mean more capital to invest in productive purposes. The GENAC management would have commented in their 2019 annual report their view that the MCT requirement is more stringent than in the US, Canada, and other Caribbean peers and as such has impeded their portfolio returns. **A lower ratio therefore would be expected to free up more capital for the Group to seek increased yield. We have seen in recent financials that they have increased allocation to USD corporate securities and USD long-term deposits in the past trial period. We view this diversification strategy as effective given the second-order effect of a lower ratio across the industry, i.e., as more capital gets "freed", there would be increased downward pressure on local government yields if more players opt to increase allocation to GOJ bonds. Given this historical context, we, therefore, believe that if the ratio were to be reduced permanently this might be the strategy employed once more.**

Premium Financing[1]

The second development in the industry involves the FSC putting forward a proposal in a consultation paper that insurance companies or intermediaries should be restricted from offering premium financing. The reason for this proposal is the perceived conflict of interest as the insurance company being the premium provider and financer benefits from greater information vis-à-vis the customer. The FSC has indicated that this has led to complaints such as provisions that allowed the termination of a policyholder's insurance contract without the policyholder's knowledge.

This, however, is currently just a proposal so it would have to be enacted into law before becoming effective which would hence need parliament approval. **If passed, the negative ramification for the industry as a whole is potentially lower premium demand as people who depend on premium financing to afford policies may no longer be able to purchase.** This would greatly impact the lower-income segment of the population which we would reasonably expect to be concentrated in the motor insurance business segment which is one of the larger business segments for GENAC, particularly through their Autosmart brand.

Despite this, based on information currently presented by the FSC, this proposed change would not affect unaffiliated providers of insurance premium financing. As such, while we cannot fully estimate the possible impact of such a policy on GENAC, we note that the majority of GENAC's customers that use premium financing typically do so through third parties such as Eppley that provide financing. As such, we are cautiously optimistic that this change, if brought to fruition, would not have a relatively large direct impact on the group's operational structure and profitability.

[1] Premium financing is the lending of funds to a person or entity in order to cover the cost of an insurance premium

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Industry Overview

In 2020 the financial services industry was severely impacted by the Covid-19 pandemic. Added to the cyclical nature of the general insurance industry was the large decline in asset prices locally and internationally that significantly impacted asset returns and reduced investment income. This was observed during the peak of the pandemic, the June 2020 quarter. Hence, for the insurance sector as a whole, we saw lower investment income across the board for general, life, and health insurers in March 2020, based on data from the Bank of Jamaica's financial stability report.

Looking at how the core insurance sector fared historically and through the pandemic, we see that the sector has remained resilient throughout the pandemic and has grown at a stable rate between the 2016 to 2020 period of approximately 11.9%. Total gross premiums for the sector grew by 15.8% to $138.9 billion as of the end of September 2020 compared to the previous period. Notably, the general insurance subsector has grown at a faster rate than the life insurance sector over 2017-2020 and has also been more resilient throughout the pandemic based on premium growth. During March 2020 the net claims to net premiums (loss ratio) and total expenses to net premium (expense ratio) both increased significantly at the onset of the pandemic rising from 57.1% to 67.8% from Dec 2019 to March 2020 for the loss ratio while the expense ratio increased from 89.8% to 104.8%. This increase in the loss and expense ratios could be attributed to faster growth in net claims particularly in the motor insurance sub-sector which outpaced the slower premium growth due to the extended lockdowns and the subsequent income fallout. The same logic could be applied to the expense ratio where several insurance companies would have cited higher operational expenditure to promote a safer work environment to adhere to social distancing protocols or higher expenses for digitalization to facilitate work from home. This has however somewhat normalized, as the loss and expense ratio in December 2020 for the industry has declined.

Despite the pandemic, the insurance sector and the general insurance subsector remain adequately capitalized. The BOJ's liquidity stress test of the sector in their 2020 financial stability report continues to confirm the sector remains resilient to shocks, with the MCT-ratios post-shock being above prudential benchmarks for general insurance companies.

General Insurance Sub-Industry				
	Mar-19	Dec-19	Mar-20	Dec-20
Capital to Assets	28.8	27.0	25.7	22.9
Loss Ratio	64.7	57.1	67.8	55.8
Expense Ratio	93.1	89.8	104.2	94.5
Combined Ratio	157.8	146.9	172.0	150.3
Return on Equity	2.0	5.4	0.0	5.2
Source: BOJ				

Industry Outlook

Much like the overall financial services sector, the strength of the insurance subsector is linked to the strength of the economy. That is, economic growth and low unemployment increase the demand for insurance directly, as well as indirectly through the growth in auto demand, and the growth in specific sectors such as construction and real estate. With this in mind, we have a positive outlook on the demand factors for the industry, particularly the property insurance sub-industry, as the economy recovers which should benefit from the tailwind of a booming construction sector. Of note, STATIN noted that GDP grew by 14.2% in Q2 2021 pointing to some amount of recovery as the Hotels & Restaurant section had the largest growth outturn of 334.6%.

Internationally, we have been seeing several central banks tightening or considering tightening monetary policy. The BOJ, likewise, increased its main policy rate, the rate on overnight balance at the central bank by 100 basis points to 1.50% in an attempt to contain imported inflation and inflation expectations. We expect that increased global tightening and higher interest rates will positively impact the industry's investment earnings going forward. Of note, the surge in inflationary pressure could negatively impact the industry by inflating claims expenses relative to current policies as well as its effect on loss reserves which are typically calculated using historical inflation (hence higher inflation means future payouts might be higher than budgeted which would require an upward revision to reserves). The verdict is however still out as to whether these inflationary pressures will, in fact, last into the medium to long term.

We believe that there currently exists a great level of competition within the space (9 general insurers compared to 6 life insurers) which we expect to continue as seen by several strategic moves being made by other players such as GK's acquisition of a 65% stake in Key Insurance and their subsequent aim of improving market share and Guardian General Insurance providing Lessor coverage for Uber. **In the negative case of a continued outbreak of the Delta Variant or even new variants of Covid-19, we believe based on the assessment done by the BOJ on the balance sheet of several general domestic insurers,**

that the insurance sector is adequately capitalized to survive such a shock, as would have also been proven through BOJ's recent stress test.

In summary, we have a positive outlook for the sector as a whole, and assuming a fairly robust recovery driven by improved vaccinations, the industry should benefit from this subsequent growth. However, while we expect overall growth, we note the heightened competition in the sector, primarily the motor insurance subsector, and fully expect that to continue.

Financial Analysis

Financial Year	FY2017	FY2018	FY2019	FY2020	6-Month 2020	6-Month 2021
Gross Premium Growth (%)	25.8	22.9	22.8	12.3	-5.4	22.9
Net Premium Growth (%)	19.5	27.6	31.4	14.9	37.1	7.5
Loss Ratio (%)	82	63	54	66	65.5	55.7
Expense Ratio (%)	21	27	26	34	33.0	32.7
Combined Ratio (%)	103	89	80	100	98.4	88.4
Net Profit ('000)	221,236	285,370	651,558	193,812	129,913	202,360

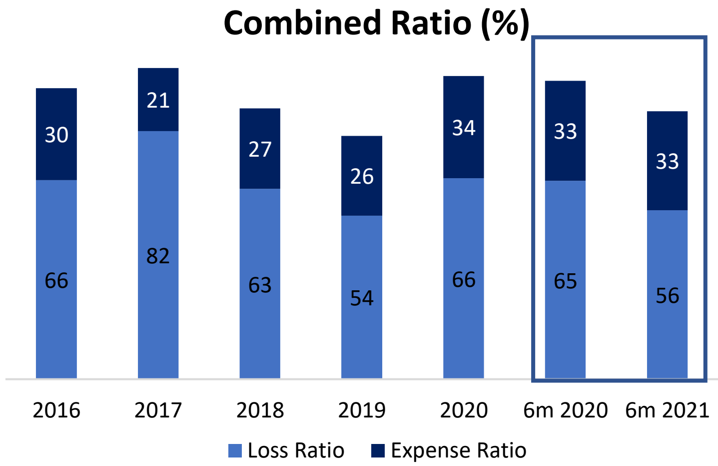
Income Statement

Premiums

Based on audited financials for the years 2016 to 2020, GENAC has grown gross premium at a CAGR of 20.8% from 5.6 billion in 2016 to 12.0 billion in 2020. Likewise, the company has grown the net written premium and net earned premiums at double-digit rates from $1.2 billion and $1.1 billion to $2.8 billion and $2.7 billion representing CAGRs of 23.2% and 24.6%, respectively. As was stated prior, the main driver of this growth has primarily been through expansion in the group's main property and motor insurance lines which have grown by CAGRs of 19.7% and 31.8%, respectively. The faster growth in the motor insurance business is driven by increased capacity for growth as the company has a relatively smaller share of the motor insurance market (11.1%) compared to its over 31.0% share in the property sub-segment in 2019, coupled with the management exclusively targeting this sector with their new Autosmart Line which provides cheaper options for the underserved PPV insurance subsector. The company's gross premium growth also outstripped that of the general industry over the 2016-2019 period (2019 being the latest IAJ statistics publication) and has also outstripped the rate of premium growth of listed competitors such as Guardian's property and casualty Jamaican subsidiary Guardian General Insurance Jamaica Limited which had a 6.1% CAGR and Keys insurance 7.3% while being lower than the CAGR for iron Rock (60.2%).

Of note, the rate of premium growth slowed in 2020. The growth in gross premiums fell from 22.8% in 2019 to 12.3% in 2020 (this was still greater than the average growth in the industry based on IAJ data of 8%). This slowdown in growth would have been linked to the economic downturn caused by the pandemic as well as the reduced operating capacity due to the lockdown measures which would have impeded customer acquisition. This would have been evident in quarters 1 and 2 of 2020 which had premium growth of -5.5% and 5.3% respectively. There has however been some amount of recovery as evidenced by premium growth of 30.4% and 52.9% respectively in quarters 3 and 4.

Expenses and Underwriting Profit



The loss ratio defined as the ratio of claims expense to net earned premiums has averaged approximately 66.1% over the five years between 2016-2020. This ratio is conceptually the cost of protection provided for each dollar of premiums earned. Notably, the loss ratio has typically remained steady barring a large spike to 82% in 2017. This was associated with an uptick in claims severity and frequency for third-party claims. The expense ratio has averaged 27.5% over the 2016-2020 period. This ratio essentially measures the level of operational efficiency, specifically the proportion of net earned premiums that go into underwriting expenses such as commissions, salaries, and other operational costs. The combined ratio which incorporates both the expense ratio and the loss ratio has thus averaged 94% over the 5 years, representing, on average, an underwriting profit. Notably, the combined ratio for 2020 was 100% representing a slight breakeven in terms of underwriting profit ($1.4 million) but a decline from the 80% combined ratio for 2019 and a smaller underwriting profit compared to the $442.1 million in 2019. Along with the COVID-19 related expense, the increased operating cost associated with the restructuring and opening of the new Trinidad and Barbados Offices also filtered into higher costs during 2020.

Investment and Other income

Investment income has been relatively volatile over the period peaking at $326.7 million in 2016. In 2020, the company had an investment income of $293.9 million, representing an increase of 27.8% from 2019. The increase in 2020 primarily reflected improved interest income which grew from $148.7 million to $173.2 million as well as gains on disposal of investment property of $34.0 million in 2020 vs nil in 2019. This translates to a return on investment of 5% in 2020 compared to 6% in 2019 and 11.0% in 2018. **This primarily reflects the effect of the current low-interest-rate environment and the shifting investment mix of the company. This can be seen for example in the decline in the effective rate of interest the company earned on Government of Jamaica securities, from 7.34% in 2018 to 4.11% in 2020, and Certificate of deposit rates from 4.2% in 2018 to 3.45% in 2020. The company would have also benefitted from being able to increase its exposure to corporate bonds during 2018/19 due to the prior mentioned relaxation period of the MCT ratio.**

Other income primarily consists of foreign exchange gains or losses, gains on disposal of properties, roadside assistance, miscellaneous income, and any gain on acquisitions. Other income in 2020 was $95.6 million compared to $202.2 million in 2019. This is almost exclusively driven by the acquisition of motor one insurance below book value in 2019 which led to a recognition of "gains on acquisition" of approximately $129.8 million in 2019.

Net profit

Net profit has been relatively volatile over the period peaking at $558.8 Million in 2019 which, as stated prior, would have been boosted by one-off gains from the acquisition of Motor One Insurance Trinidad. The net profit attributable to shareholders in 2020 was $ 242.5 million reflecting a decline of 56.6%, due to COVID-19's impact on expenses, the one-off 2019 gains, and the additional expenses associated with operating in the new Trinidad and Barbados markets (the reduction in net profits falls to approximately 29.7% after accounting for one-off gains on an acquisition of a subsidiary in 2019).

6-Months Ended June 2021

Premiums

For the YTD 2021 period, the gross premiums written, and net premiums earned were $7.6 billion and $1.5 billion representing growth of 22.9% and 7.5% respectively. This outturn for gross premium written was driven by an increase in the premiums written for the Jamaican subsidiary from $6.0 billion to $7.2 billion while the Trinidad and Barbadian subsidiaries combined more than doubled their total gross premium written from $204 million to $412 million. Management notes that going forward, following the rebrand of the Trinidad operations from Motor One to General Accident TT, they expect growth as they expand from just motor insurance to include their main strength, property insurance going forward. The relatively smaller rate of growth in net earned premiums primarily reflects an increase in reinsurance costs of 24.2% or $1.2 billion. Of note, the level of premiums written has recovered from the slight drop-off that was experienced during the heights of the pandemic ($6.6 billion in 6-months 2019 vs S7.6 billion in 2020).

Expenses and Underwriting Profits

For the YTD 2021 period, the loss ratio of the group was 55.7%, representing an improvement compared to the 65.5% and 64.0% reported in the same period in 2019 and 2018, respectively. The reduction in the loss ratio reflects improvements in the claims expense which declined by 8.5% while the net premiums earned increased. The expense ratio for 2021 was 32.7%, a minor change from the 33.0% recognized in 2020. Notably, for the 3-months ended June 2021, the expense ratio of 32% represents a reduction from the 39% seen in 2020 which would have been caused by lockdown restrictions and the operational changes done to cope. The combined ratio for YTD 2021 was 82% compared to 98.4% in 2020 and 91.8% in 2019, pointing to an improvement in the performance of the group's insurance underwriting. **The underwriting profit for the period in 2021 was J$169.0 million compared to $21.2 million in 2020 and $81.0 million in 2019.**

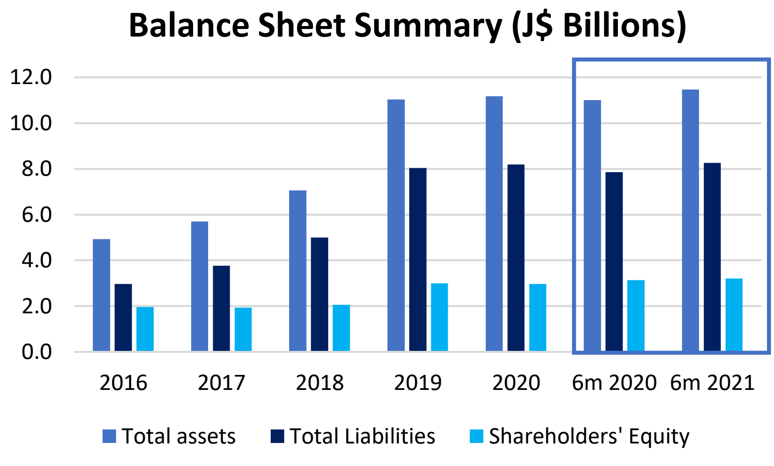
Investment, other income, and Net Profits

Investment income for the YTD period was $103.0 million in 2021, an increase of 14.8% compared to 2020 and 36.4% compared to 2019. On the other hand, other income declined by 55% for 2021. **Net profit attributable to shareholders for YTD 2021 amounted to $202.3 million compared with $130.0 million in 2020, representing an increase of 55.8% and growth of 49.6% relative to the same period of 2019 (pre-covid).**

Balance Sheet

Total Assets:

Q2 2021: For the period ended June 2021, total assets stood at $11.5 billion. Of this, 34.7% or $4.2 billion were investment securities, 12.2% or $1.3 billion were amounts due from policyholders' brokers and agents, and 20.0% or $2.3 billion were amounts due from reinsurers. Of note, the proportions of "due from policyholders" and "due from reinsurers" are up from 9.5% and 15.4% in 2016. A large part of this reflects the general growth in the use of reinsurance, primarily seen in the growth in the gross premium written under the property segment which heavily uses reinsurance. Total assets grew by 1.2% from the $11.2 billion in 2020 which was slower than the rate of growth in 2019 which was aided by the regional expansion. The slight growth YTD was aided by growth in other receivables and loan receivables.



Total Liabilities: As of June 2021 total liabilities were $8.3 billion**.** Total liabilities grew slightly by 0.8% for the YTD 2021 period. This slight increase is attributed to an increase in insurance reserves of 8.2% or $540.5 million, offsetting declines in other liabilities of $201.7 million and due to reinsurers and coinsurers of $236.7 million. Y-o-Y Total liabilities have increased by 5.1% driven again by an approximate 5.0% increase in insurance reserves ($342.8 million) and amounts due to reinsurers and coinsurers of $120.5 million outweighing declines in other liabilities of $118.3 million.

Total Equity: Total shareholders' equity stood at $3.2 billion as of June 2021. This represents a YTD gain of 7.8%. Year over year**,** this represents a gain of 2.1%, or $65.8 million. Net of non-controlling interest, total equity increased by 7.7% Y-o-Y. The increase in equity is primarily driven by an increase in retained earnings Y-o-Y of 4.8% or $92.2 million as well as replenishment of fair value reserves from $3.2 million in June 2020 to $75.7 million in 2021. This is reflective of an improvement in the fair value of securities measured in other comprehensive income which would have experienced downturns relating to the economic decline associated with the heights of the pandemic in the earlier part of 2020 and the subsequent recovery was seen in late 2020 and early 2021 which drove an increase in profitability that bolstered the Company's equity base.

Capital and Pandemic impact

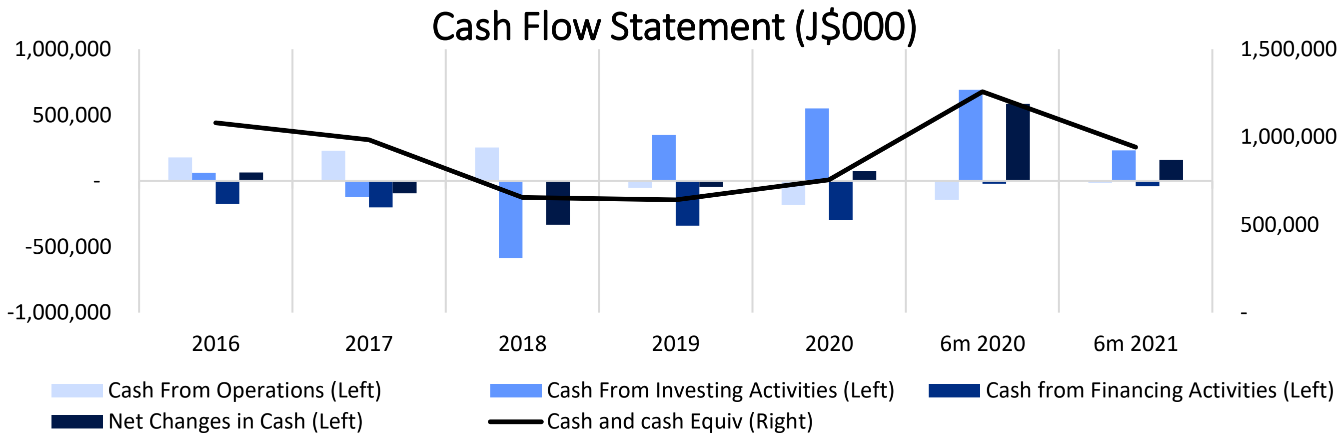
The majority of the group's holdings have primarily been in liquid assets such as Certificates of Deposit, cash, and cash equivalents. Consequently, the pandemic did not have a significant impact on the investment assets of the group. The group's loss allowance on debt securities opened in 2020 at $12.3 million and remained unchanged over the period (i.e., no expected credit loss on investment recognized for the year). However, there was an increase in the loss allowance for premium receivables from $7.0 million to $14.3 million with the expected loss rate for premiums over 3 months overdue increasing from 1.5% to 3.2% The group remained adequately capitalized throughout 2020 with a minimum capital test ratio of 240% which was above the stated minimum requirement of 200.8% for the company. The typical minimum is 250% however the company was given forbearance due to the relaxation of the requirement by the FSC for a two-year window in January 2019. The company has also met regulatory requirements for its subsidiaries in Trinidad and Barbados.

Cash Flow

Operating Cash Flow: For the 6-months ended June 2021 the group had an operating cash outflow of $15.6 million. This is in contrast to an operating outflow of $141.7 million in the same period of 2020. These negative cashflows despite positive profits reflect cash outflow due to working capital changes for both 2020 and 2021. The improved cash flow in 2021, relative to 2020 is primarily attributable to the pickup in insurance activity leading to an increase in insurance reserves, $540.5 million compared to $318 million in 2020. Operating cash flow would have also been negatively impacted in 2020 by continued expenditure relating to the startup costs related to the Trinidad and Barbados operations. Of note looking at the periods 2016-2020, the group had typically large positive cash flows before the expansion in 2019 which would have necessitated increased cash outlays.

Net Investing Cash Flow: For the YTD 2021 period, net cash provided by investing activities was $216.6 million compared to 747.5 million in 2020. This difference largely reflects a smaller drawdown of investments compared to the previous period, net investments (sale of investment securities net of purchases) of 231.5 million in 2021 vs 691.7 million in 2020, as well as the continued extension of loans (a trend we have seen since the acquisition of the Trinidad branch) totaling $69.1 million compared to no loans made in 2020. For the five years, 2016-2020 investing cash flows have been fairly volatile with a large outflow in 2018 of $586.1 million, linked with increased net investments into securities followed by drawdowns in 2018 and 2019 related to acquisitions.

Net Financing Cash Flow: Net financing cash outflow for the period amounted to $41.0 million, with all of this being associated with lease payments. This represented an increase of 91.8% compared to the $21.4 million financing outflow paid in the same period of 2020, also representing lease payments. Over the five years, 2016-2020, we see that the company has consistently paid dividends, with the dividend payment in 2020 being $296.2 million compared to $292.7 million in 2019 representing a slight decline of 4.9%. The Group's dividend policy includes an aim to pay out at least 25% of net profit as dividends yearly. As noted by the chart below, post-2018 investing cash inflows have been the main cash driver of the company. This is primarily due to the regional expansion which would have added additional pressure on working capital for the group. This was then slightly offset by the offloading of an investment property that was acquired as part of the acquisitions in the expansion and some investment securities over the 2019-2020 period.



Valuation Summary and Recommendation

Stock	GENAC
Close Price	J$5.44
Estimated Fair Value	J$6.57
Potential Upside	**20.8%**
Dividend Yield	3.98%
Total Return	**24.8%**
Year to Date Return	-12.12%
Trailing P/B	1.98x
Trailing P/E	17.55x
Recommendation	**OVERWEIGHT**
Date: October 29, 2021	

To determine a fair value for General Accident, two methodologies were utilized, a Justified Price to Book (PB) and a Dividend Discount Model (DDM). We used these methodologies on a projected EPS and BVPS of $0.53 and $3.08, respectively, for the end of the financial year 2021. To determine these estimates, we assumed a normalization of costs associated with the operations of the new additions in Trinidad and Barbados for the remainder of the year and a subsequent improvement in underwriting profitability.

We applied the **Justified** P/B multiple of 2.04x to the projected 2021 book value per share of $3.08 to reach a fair value estimate of **$6.45**.

For the dividend discount model, we determined a dividend pay-out of approximately $0.29 per share for the upcoming financial year (expected pay-out 2022). We then utilized a long-run sustainable growth rate of 7.0%. This rate was determined using average adjusted ROE of 18.90%. We expect the company to continue to deliver on these returns in the future as they enter and expand on their strategic property insurance sector in new regional markets aided by strong parent company connections in the Musson Group. This ROE was then coupled with the Group's estimated average retention ratio of 56.6%. **Based on our DDM model, we arrived at a fair value of $6.69.**

We then used a simple average of the two estimates to arrive at our target price of $6.57. Based on the October 29, 2021, close price of $5.43, this implies an upside of 20.8%.

We believe the Group is a strong player in the domestic market, particularly in the property insurance segment, and has also shown robust growth in the domestic motor insurance market. This is indicated by gross premium growth that is stronger than the market growth rate. Given the group's already dominant position in the domestic market, they have thus chosen to pursue expansion regional as they have already captured a significant portion of the Jamaican market in the past 10-years. Given the Company's demonstrated ability to grow and capture market share over the last several year, we expect this to continue in Jamaica as well as in the new regional markets. Consequently, we issue an **OVERWEIGHT** recommendation on the Company's stock.

Definitions:
Sell = REDUCE EXPOSURE iN YOUR PORTFOLiO TO ZERO
UNDERWEiGHT = REDUCE EXPOSURE iN YOUR PORTFOLiO TO LESS THAN 5% FOR THiS PARTiCULAR ASSET
MARKETWEiGHT/HOLD = EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLiO
OVERWEiGHT/BUY = EXPOSURE TO THiS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLiO