MAKING MONEY WORK FOR YOU.

Local Equity Report

GUARDIAN HOLDINGS LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

Company Overview

Guardian Holdings Limited (GHL) is the parent company of the Guardian Group, which focuses on life, health, property & casualty insurance, pension, and asset management. The company has grown steadily and currently serves markets across the English and Dutch Caribbean, including Trinidad & Tobago, Barbados, Jamaica, Curacao, Aruba, St. Maarten, and Bonaire, to name a few. The Company is 61.77% (2020: 61.967%) owned by NCB Global Holdings Limited ('NCBGH' and the 'Parent'), a limited liability holding company, which was incorporated in Trinidad and Tobago in December 2017. NCBGH is 100% owned by NCB Financial Group Limited ('NCBFG').

Valuation Summary	
Stock	GHL
Price JSE/TTSE	J$491.63/TT$25.31
Fair Value J$/TT$	J$574.31/TT$25.81
Price Returns JSE/TTSE	16.82%/1.98%
Dividends Yield	3.01%
Recommendation JSE	OVERWEIGHT
Recommendation TTSE	MARKETWEIGHT
Date	March 31, 2023

Investment Rationale

GHL provides the investor an opportunity to invest in a large company with a fairly broad geographical footprint. In addition to this, the company is a market leader in its field across various jurisdictions and offers a fairly consistent dividends payout. The Group has also enjoyed a rebound in profitability partly due to expense controls which have led to a favorable adjustment to reserves. This is coupled to a slightly lesser extent with overall topline growth in gross and net premiums. When these are bolstered with the group's continued expense management initiatives there is strong support for improved performance going forward. We do however note that sentiment on the market remains relatively weak particularly as we feel the impact of the rate hikes which have disproportionately impacted the main market and financial stocks and hence may weigh on the short-term performance of GHL.

Valuation.

We employed a multi-stage residual income model to value GHL. Based on our projected return on equity for the group and our estimated cost of equity of 14.18% we arrived at a fair value of JJ$574.31/TT$25.81. We, therefore, assigned an **OVERWEIGHT** rating to GHL's stock on the Jamaica Stock Exchange (JSE) while we assign **MARKETWEIGHT** rating to the stock on the Trinidad Stock Exchange (TTSE). We do however highlight that the general outlook for the company remains positive as its cost-cutting efforts have borne fruit and it should also benefit from a rebound in global bond prices given the consensus view of the top of the hiking cycle being closer. Headwinds however include the possibility of a tightening reinsurance market which may adversely affect margins.

Global Market Overview and Outlook

Global

Gross Premiums

GHL operates in many markets across the Caribbean, however, the insurance market is global and interconnected. See for example the extensive use of reinsurance, which is typically facilitated by larger global reinsurance companies (when an insurer seeks insurance to protect themselves from the risk associated with providing coverage). Hence, they are impacted by the trends in the global insurance industry and the macroeconomy which also generally impacts reinsurance costs and GHL's own cost and revenue drivers. Notably, using preliminary data for up to mid-2021 for the global insurance market from the Organization for Economic Co-Operation and Development, the lingering impacts of Covid-19 were still being felt despite some amounts of recovery in the sector as a whole.

Insurance premiums were depressed during the climax of the pandemic (2020), i.e fewer people paying health premiums or driving and paying car insurance. The Organization for Economic Co-Operation and Development (OECD) in their Global Insurance Market Trends (2022) noted that after a decline in 2020, global gross written premiums rebounded strongly in 2021. The majority of this rebound is in the life insurance sector where real gross written premiums increased by 7.7% on average among the 52 jurisdictions that report to them. This improvement was primarily due to the removal of Covid-19 restrictions which disrupted the sales of insurance products (partly due to the inability to conduct face-to-face meetings). Other factors include increased demand for insurance products given the improved market performance in 2021 (investment-linked products), the economic recovery spurring additional demand and lastly, the heightened awareness and demand for some insurance products in some jurisdictions.

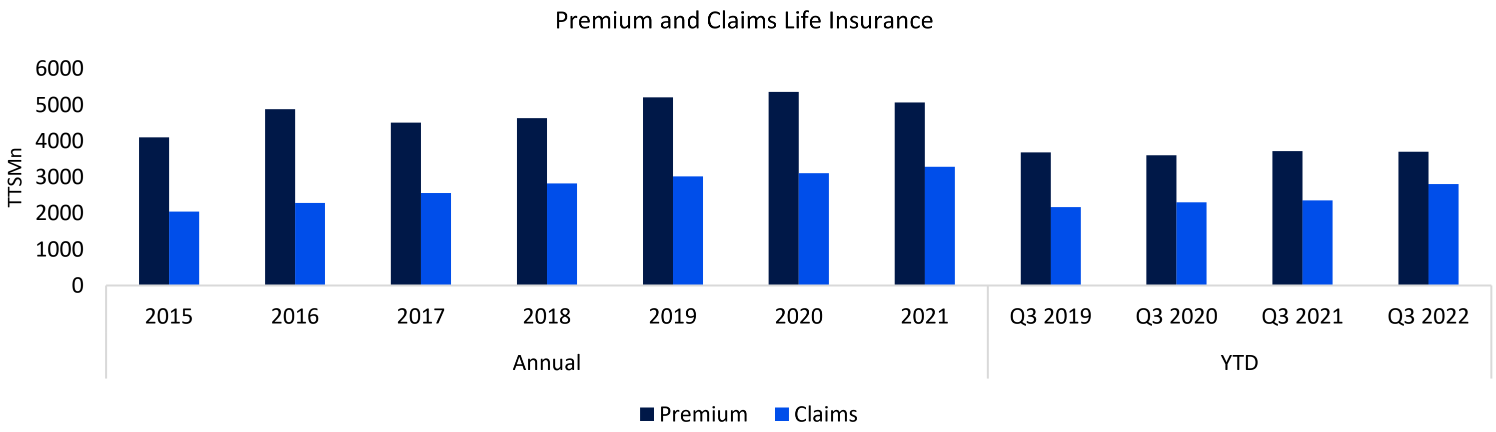
Claims and profitability

The life insurance sector globally has suffered the most as it relates to claims payout. On average across the reporting jurisdictions, pay-out claims in real terms rose by 12.8%, with widely varying results across different jurisdictions, most however, experienced some increase in real terms with varying driving factors. The heavy toll of the pandemic in Latin America led to increases likely linked with death benefits. The pandemic also had some lingering impact on the non-life sector and had a more mixed result with close to half of the jurisdictions reporting to the OECD having increased payouts. These increases in payout were related to the increased use of cars after the reopening of economies meaning more road traffic events in 2021.

Despite the rising claims expense in some territories, both the life and non-life segments remained profitable in 2021, albeit with a lower return on equity (ROE) relative to 2020. Specifically, for the Life insurance segment, the ROE was positive in 31 out of the 34 reporting jurisdictions. However, just about half of the reporting territories saw a decline in ROE in 2021 relative to 2020. Therefore, the lingering impact of increased claims adversely affected profitability in 2021.

Regional (Trinidad and Jamaica)

The Trinidadian insurance sector recorded a fairly large decline in gross premiums for the insurance sector in 2021, falling to TT$5070.8 million, compared to TT$5361.9 million in 2020, representing a decline of approximately 5.4%. This occurred as the country was still dealing with the impact of covid and lockdown measures. In combination with this, the sector also experienced a material increase in the number of claims from TT$3112.3 million in 2020 to TT$3291.1 million in 2021, an increase of 5.7%, reflecting a faster pace of growth than the 2020 increase of 3.1%. Hence, the Life insurance sector in Trinidad suffered the same fate as others across the globe, with increased claims expense, which was partly attributed to covid related health payouts that lingered into 2022. According to data from KPMG's industry statistics for 2021, lower premiums growth, faster claims growth, and higher operating expense ratio, marginally offset by a slightly increased investment return have led to a decline in profit before tax for the Life Health



and Pensions insurance sub-segment of approximately 12.73% or $99.4 million to $681.2 million in 2021 compared to $780.6 million in 2020.

As of the latest available data for 2022 which includes the first 9 months of the year, signs of a return to gross premium growth for the industry are not distinctively clear. That is, the first 9 months of 2022 have seen gross premiums of $3,706.9 million which is marginally lower that the $3,716.9 million recognized in the same period last year. However, the final quarter of the year is typically the largest quarter for written premiums and so clearer signs of recovery if any are likely to be seen when premiums are paid over in Q4 2022. Notwithstanding, what is fairly clear is the increased claims expenses currently for 2022, which is up over 18.9% relative to the same period in 2021.

When we look at the annualized return on equity as of the latest industry-wide available data as of September 2022, we see a different view of the 2022 performance of the industry. That is, an ROE of 18% as of September 2022 represents the highest industry-wide ROE for a quarter since the availability of industry-wide data from the central bank (since 2008). Improved profitability as measured by the ROE despite seemingly weakening underwriting performance (based on a minor contraction in gross premiums written YTD and a fairly large increase in claims) is likely due to a combination of favourable reserve adjustments as insurance providers invested in operational efficiencies during the pandemic (As was noted by GHL) combined with the impact of a lower capital base coming from the decline in asset prices seen in the tail-end of 2021 and the majority of 2022.

In the Jamaican market, the IAJ 2021 report noted that for 2021, the life insurance sector wrote total premiums of J$44.5 billion which represented a marginal decline of 0.36% from 2020. By comparison, the growth in the industry for 2019-2020 was approximately 1.8%. Despite this slight decrease in gross premiums written for 2021, (which in real terms still represents a decline) benefit payouts were relatively more contained with total payouts for 2021 amounting to J$23.63 billion, compared to J$24.41 billion in 2020.

Looking at more recent FSC data for the life insurance sector, it was noted for the latest 2 quarters of 2022, Q3 and Q2 expense ratios have declined for the industry, coming in at 82.7% and 85.4% respectively, compared to 86.4% and 129.1% for the similar quarters of 2021. Despite this improvement in efficiency, ROE for the first three quarters of 2022 has been noticeably lower than that of 2021 or the pre-pandemic 2020 period. This is partially due to lower investment returns on assets in 2022. For example, investment income as a portion of investment assets for Q3 2022 was 0.93% compared to 1.65% in 2021.

Outlook

In the 2022 Global Insurance Market Report (GIMAR) report, the outlook for the profitability of the global insurance industry was noted. Specifically, the expectation of continuing geo-political tension, a worsening macroeconomic backdrop, as well as the ongoing tight global monetary policy, coupled with increased credit risk and cost associated with the implementation of IFRS17 is expected to weigh on future performance. Namely rising inflation and an overall slowdown in economic activity are expected to harm profitability. In the case of rising interest rates, this typically positively impacts the profitability of life insurers, for example as they reinvest at higher rates, however, there remains nuance based on specific asset liability management frameworks and the expected losses from fair value declines due to rate hikes.

In our view, as noted prior, specifically for the life segment, insurance premiums had seen a boost globally in 2021 which in some jurisdictions was attributed to reopening and an improvement in economic conditions. In 2023, while the expectation is for a slowdown in growth, which is a net negative for insurance demand and spending, this is somewhat alleviated by the expectation for lower inflation which will therefore ease the burden on consumer balance sheets and claims inflation. Thus far, it is unclear which factor will dominate the near-term trajectory of the industry. Notwithstanding, it is notable that indicators such as the MIB Group's (a membership corporation of insurance companies in the United States and Canada) life index which measures life insurance application activity on a year-to-date basis, activity is up 5.9% in 2023 compared to the same period 2022. **Hence, despite the expectation of slowing growth, insurance activity currently still appears fairly robust.**

In regional markets such as Trinidad and Jamaica, there was not a drastic increase in insurance demand similar to what can be observed in other global markets. This is partially due to the much slower pace of economic recovery in these countries relative to the developed world. Hence, in 2023 and beyond, while we expect growth in the sector both in Jamaica and Trinidad (particularly life insurance), we expect this growth to be below the long-term trend. This is likely due to several headwinds including the impact of inflation and slowing demand in developed markets, coupled with the extent of losses both realized and unrealized on the investment assets of reinsurers. Against this backdrop, there is a material risk of higher reinsurance costs for insurers. This increased reinsurance cost (albeit more applicable to the general insurance industry) is expected to increase premium rates which may adversely affect demand.

Financial Performance (Financial Year Ended December 2022)

(Dollar Values ($) represent Trinidad and Tobago Dollars unless otherwise stated)

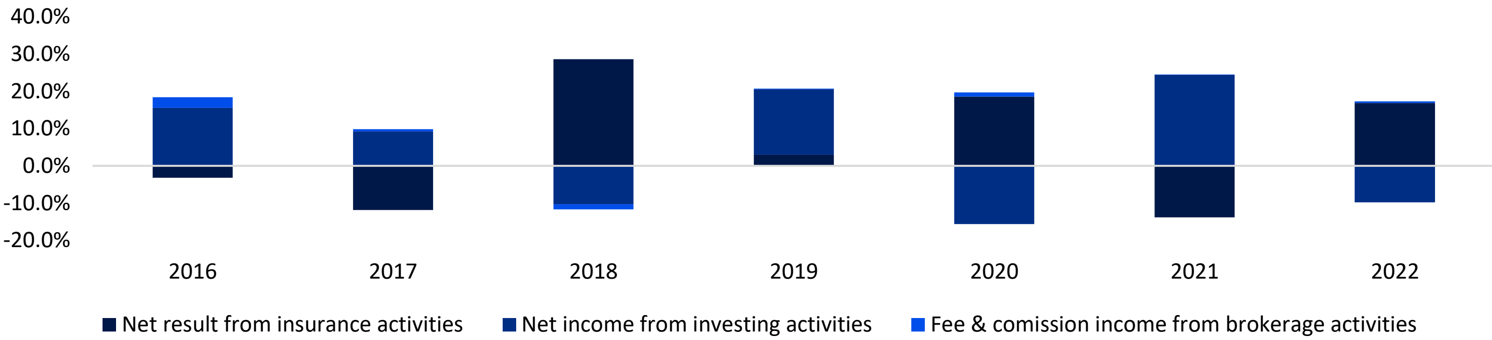
Firstly, when looking at Guardian, note that the company generates revenues from 3 primary operations. These include insurance activity (writing and earning premiums), investment activities, and lastly fees and commission-generating business lines (mainly from their brokerage services). In the 2022 financial year, the group generated a total operating income (total of the prior mentioned 3 revenue streams) of TT$3.0 billion, representing an increase of 7.5%. In dissecting the contribution to overall growth, we observe that insurance activities contributed to the growth of 16.9%, followed by fees and commission income which contributed only 0.4% percentage points to total growth. However, investment-related income contributed negatively to growth at -9.8% percentage points as seen in figure F.1. Also, it is noticeable from the graph on a historical basis that annual growth between 2014- 2021 typically varied widely, with the main contributing revenue stream to growth often oscillating between insurance and investment income growth with varying cycles of growth and contraction for the individual segments.

Revenue Drivers

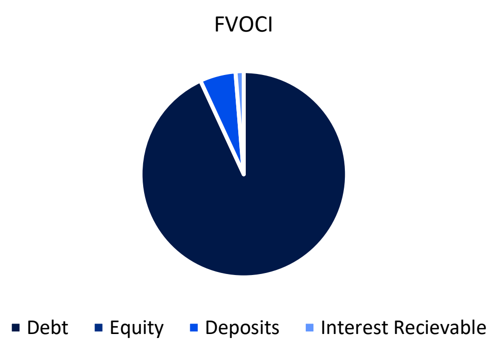
Despite net insurance income being up over 44.8%, Gross premiums were only 3.4% higher, with net premiums rising at a slightly faster pace of 4.8% for 2022. Note this gross premium growth is below the compounded annual growth rate of 4.8% over the 2014-2022 period. This, therefore, points to the improved performance shown in the insurance segment in 2022 being more likely attributed to either lower claims or positive changes to the group's insurance reserves. As noted from NCB's management commentary on their life insurance performance (The majority of which is attributable to GHL), claims expenses actually increased but were largely outweighed by positive reserve movement. GHL's Management also acknowledged that the improvement that was seen YTD was in fact due to favorable movements in their insurance reserves. GHL, in addressing this change noted that the movement in reserves was a result of capitalizing on investment opportunities that allowed for greater balancing of Assets & Liabilities, as well as prudent expense management.

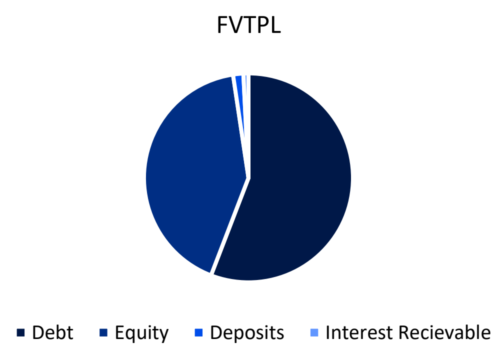
---Note- Actuarial reserves for life and annuity contracts which comprise the majority of Guardian Life's liabilities, represents the estimation of the present value of future claims and expenses of their insurance contracts. Hence, assumptions that go into changes in this reserve include investment returns, discount and borrowing rates, mortality rates, and policy maintenance expenditures.---

F1 Growth Contribution



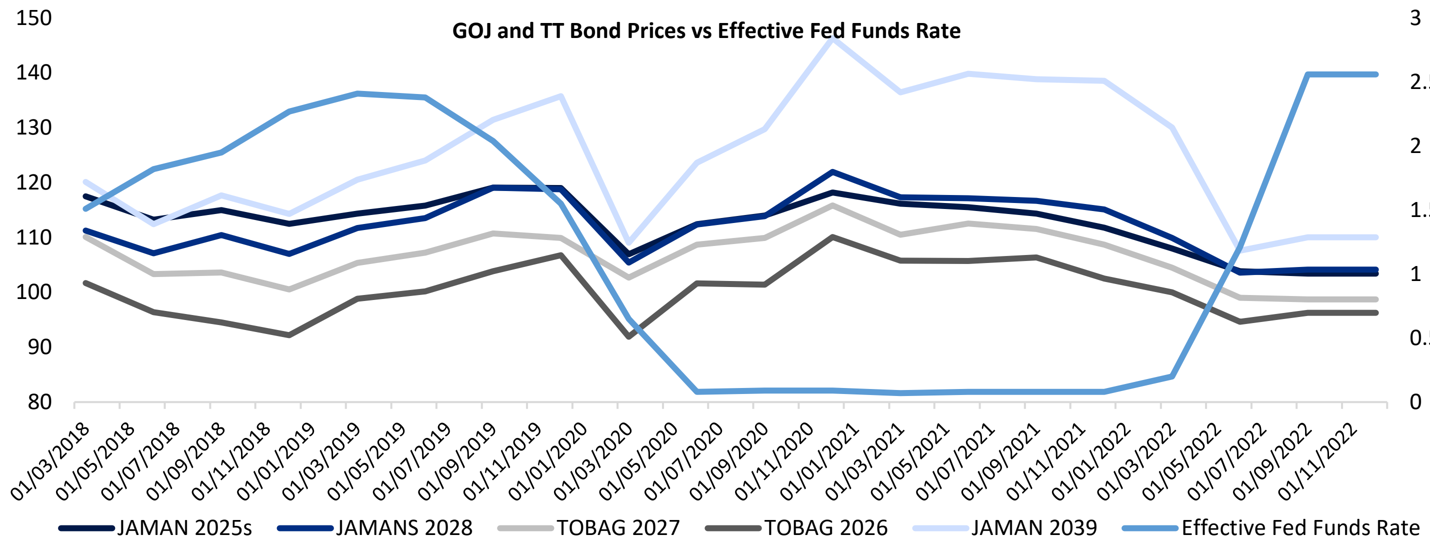
As stated prior, the commission income stream contributed negligibly to growth and has historically contributed the least income, while investment income declined relative to last year. Investment income for 2022 was $1.3 billion compared to $1.6 billion in 2021. This was due to the global downturn that we have seen in asset prices since the beginning of 2022. Based on the detailed breakout of GHL's investment holdings (i.e what portion is recognized through profit and loss and other comprehensive income), it can be seen that as of December 31, 2022, approximately 38.0% of year-end investment securities were carried through profit and loss. The majority of this is comprised of debt securities, while the group also classified all of their equity investments in profit and loss. Notably, however, the majority of the group's $17.5 million in debt securities (approximately 71.2%) are recognized at FVOCI or amortized cost and hence the large decline in global bond prices would have a greater impact on the company's other comprehensive income.





As such, the decline in profitability from investment activities is likely a result of weaker asset market performance in 2022 relative to 2021 (which was partly aided by base effects given the asset market decline in 2020). This is in line with global monetary policy shifting to becoming more contractionary in the earlier portion of 2022, with the federal reserve's first interest rate hike occurring in March 2022. Further to this, with a more granular breakdown of the debt portion of investments recognized in fair value through profit and loss, we see that the overwhelming majority is government debt securities (88.6%). This likely represents both Government of Jamaica and the Government of Trinidad and Tobago's debt securities. As can be seen from the graph titled “GOJ and TT Bond Prices vs Effective Fed Funds Rate,” in the earlier portion of 2022, in line with the increasing effective fed funds rate both GOJ and

TT bonds suffered price declines before stabilizing for the remainder of the year. This, therefore, corroborates the decline in investment income for GHL over the period.



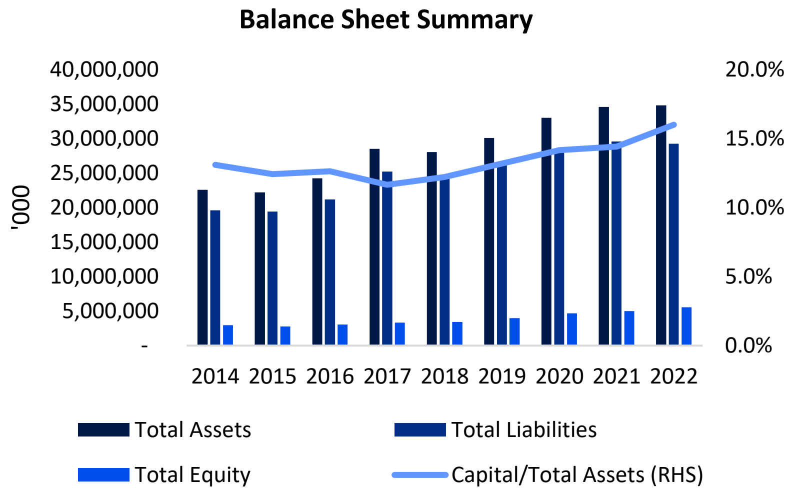
Operating Expenses and Profit

Operating expenses grew by 2.6% to TT$1.5 billion YTD, reflecting a slower pace compared to total revenue growth of 7.5% for the year, pointing to an improvement in the operating expense ratio (Operating expenses as a portion of Income from all sources) to 50.9%, compared to 53.3% for 2021. Notably, the operating expense ratio has trended downward over the 2015-2022 period from a high of 63.6% in 2017. Management attributed the increase to costs in 2022 with the implementation of IFRS 17, as well as Group-wide transformation initiatives including the continued spending on digitalization. IFRS 17 implementation and transformation initiatives have led to the Group making significant investments in their accounting and financial systems over the past few years, including 2021 and 2022. However, Management noted that they expect the elevated expenses relating to their transformation initiatives and the adoption of IFRS 17 to abate in 2023. As such, going forward, one can expect continued improvement in operating efficiency owing to slower growth in operating expenses.

On the back of faster revenue growth, spurred by increased income from the insurance activity, (partly attributed to positive actuarial movements) the Group's net profit attributable to shareholders for 2022 was $1.1 billion, compared to $782.3 million for 2021. Notably, the total comprehensive income for the period was lower than the net profit at TT$756.5 million. This is largely a result of unrealized losses on debt securities. The other comprehensive loss for 2022 was TT$348.2 million compared to a loss of TT$432.2 million in 2021. As noted prior, the majority of the group's debt securities are carried in other comprehensive income, and as such, the decline in global bond prices which we have seen for the majority of the first half of 2022 is reflected in the increased losses seen in other comprehensive income.

Balance Sheet and Asset composition

As of December 2022, GHL had total assets of $34.8 billion. Hence, compared to December 2021, GHLs balance sheet has increased marginally by 0.7% from $34.6 billion last year. This represents a relatively slower pace of growth historically of total assets, which grew by an average of 6.8% annually between 2014 to 2021. In terms of the funding sources, it can be seen that the Group's equity base has improved, while total liabilities decreased year-over-year. Hence the year-over-year slowdown in total asset growth was primarily reflective of this deleveraging, whereas historically, GHL has grown both the equity and liability side of its balance sheet. Concerning asset composition, as of December 2022, the top 3 asset line items for GHL were investment assets, representing 67.4%, cash, and cash equivalents, representing 10.4%, and lastly loans and receivables, representing 6.7%. As noted prior, in line with the relative stability in the groups' total assets over the last year, the composition of assets has not changed significantly with investment securities being the largest income-generating asset on the balance sheet, (as expected of a typical insurance company) with the Company's general investment securities composition also not changing much over the years. This is evidenced for example, by equity securities representing 17.8% of investment securities in 2017, decreasing slightly to 15.0% as of the latest available breakdown at the end of December 2022.



Specifically, as it relates to GHL's funding base, we note that total liabilities declined by $352.9 million to $29.24 billion. The majority of this decline was represented by a $323.2 million decline in insurance contract liabilities and a $216.4 million decline in financial liabilities. These declines were slightly offset by an increase in other liabilities. The decline in insurance contract liabilities which represents the net present value of expected future benefit payouts to policyholders is in line with the company observing positive actuarial reserve movements during the year through better investment matching and operating efficiencies. The decline in financial liabilities primarily reflects a decline in medium-term borrowing. Over the 2015- 2022 period total liabilities grew at a CAGR of 6.0% driven mainly by rising insurance contract liabilities, in line with the company increasing business and by extension the number of insurance policies outstanding.

In terms of the composition of liabilities relative to 2021, there have been no major changes, with 65.6% of liabilities being insurance contracts, 11.3% being financial liabilities, and 9.1% constituting investment contract liabilities. This is also relatively unchanged over the long run with the composition of total liabilities being fairly similar to 2015. However, the overall funding base of GHL over the last year has shifted slightly as the company's equity base increased from $5.0 billion to $5.6 billion, representing an increase of 11.8% year-over-year. This is due to the increased profitability of GHL boosting retained earnings (moving from $3.8 billion to $4.8 billion), greatly outweighing the continued decline in the equity reserves brought about by continued losses in fair value through other comprehensive income caused by the general decline in asset prices.

Capital

The Group's capital-to-total assets stood at 16.0%, trending marginally upward from 12.4% in 2015 and 14.4% seen in 2021. This compares to the Jamaican life insurance industry average of 36.1% (approximately 23.6% for Trinidad) as of September 2022 (latest available data). While the outturn is lower than average and lower than its main competitors, and it is a metric tracked by the Central Bank, we do not have enough information to fully assess the degree to which GHL's capital has surpassed the statutory requirement.

Notably, while this ratio is seemingly worse than the average, also recall this might be partly due to the size of GHL leading to greater policyholder liabilities. We note that while specific details about the extent to which GHL are meeting capital requirements are available, they did meet their statutory requirements across their different business jurisdictions as of December 2021. Subsequently, the Group's capital position improved given increased profitability.

Additionally, the bank of Jamaica in their latest quarterly monetary policy report with data up to the end of June 2022 noted that the life insurance subsegment had a Minimum Continuing Capital surpSurplus requirement of 232.8%, which is above the minimum regulatory requirement of 150%. Likewise the Trinidad Central bank in its 2021 financial stability report 2021(latest available report), also noted that the industry remained adequately capitalized but faced concentration risk in terms of the sovereign bonds that comprise their portfolios

Valuation

Valuation Summary	
Stock	GHL
Price JSE/TTSE	J$491.63/TT$25.31
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Price Returns JSE/TTSE	16.82%/1.98%
Dividends Yield	3.01%
Recommendation JSE	OVERWEIGHT
Recommendation TTSE	MARKETWEIGHT
Date	March 31, 2023

To value GHL we opted to utilize a multi-stage residual income model for multiple reasons. These included our belief that there is only a small pool of comparable listed stocks from which to utilize a multiples-based approach, as well as that the dividend payout tends to be unstable, therefore, we decided against a dividend discount model. The residual income model essentially looks at the returns on shareholder equity that the company is projected to make above and beyond its cost of equity (i.e. its residual income). This residual income is then discounted and added to the current book value to arrive at a valuation.

In doing our residual income model, we projected all 3 statements for GHL 5 years ahead. Key assumptions that were used in our model include continued gross premium growth which is below trend growth, before rising incrementally as the industry recovers to a long-term growth rate of 5.0% in line with a blended average nominal rate of GDP growth in Trinidad and Jamaica, an increased reinsurance rate (which is expected at the very least in the short term) and some normalization of the actuarial reserve releases going forward (i.e assuming excessively large releases from actuarial reserves are tempered in the long run). These assumptions culminated in our forecast of $5.5 billion in net premiums in 2023 and $6.6 billion by 2027. This compares to net premiums of $5.4 billion for December 2022. Regarding our capital market assumptions, our baseline assumption is for mild positive returns in global bond markets (5% return in 2023) and a more conservative negative return for equities (-3%) before returning to a yearly return in line with global nominal GDP growth, approximately 6.5% by 2027.

In building our residual income model, we made adjustments to allow for clean surplus accounting. That is, we categorize fair value changes in other comprehensive income as profits, i.e utilizing total comprehensive income (TCI). Based on our forecasts we are expecting TCI of $1.3 billion in 2023 aided by increased bond returns. Other key model-specific assumptions include a cost of equity of 14.15% derived from a build-up methodology, as well as an expectation that in the long run, the group's ROE will match the cost of equity leading to no long-run residual income. Based on all these combined assumptions we arrived at a fair value of approximately J$574.31/TT$25.81 which represents a potential upside of approximately 16.8%/2.0% based on the closing price on the JSE/TTSE of J$491.63/TT$25.31 as of March 31, 2023. Therefore, we assigned an **OVERWEIGHT** rating on GHL shares listed on the JSE and a **MARKETWEIGHT** rating on the shares listed on the Trinidad stock exchange.