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CREDIT RATING ANNOUNCEMENT

GCR affirms Kenya Reinsurance Corporation's rating of $AA_{(KE)}$; Outlook Stable.

Johannesburg, 18 September 2018 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Kenya Reinsurance Corporation of $AA_{(KE)}$, with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale claims paying ability rating assigned to Kenya Reinsurance Corporation at BB, with the outlook accorded as Stable. The ratings are valid until July 2019.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Kenya Reinsurance Corporation ("Kenya Re") based on the following key criteria:

Kenya Re's rating is supported by capital buffers, which have cushioned risk adjusted capitalisation metrics within a very strong range over the review period. Accordingly, the international solvency margin equated to a very high 196% at FY17 (FY16: 192%), comfortably tolerating dividend distributions and developing credit pressures. Going forward, very strong risk adjusted capitalisation is likely to be supported by a possible strengthening in capital generation from operations and prudent capital adequacy targets under both the risk based capital model and own risk and solvency assessments using an adapted international capital model.

While earnings historically depended on strong investment income, efforts to address operating efficiencies could strengthen earnings capacity from the current intermediate range. In this regard, the underwriting margin increased to 3.2% in FY17 (BGT18: 7.9%; review period average: 1.1%), with additional earnings support derived from investment income and sound long term business operating margins (FY17: 29%; review period average: 35%). However, in GCR's view, the reinsurer's underwriting profitability is likely to remain susceptible to event-driven fire losses and possible large losses from the accident and health account (given elevated risk retention), as well as variable credit impairments which could induce earnings volatility.

The strengthening of asset liability management approaches in recent years and a sizeable investment portfolio support very strong liquidity metrics, which are likely to be sustained over the medium term. Cognisant of the predominately short term nature of the majority of liabilities on both the short and long term business, the reinsurer geared investments towards government securities. This supported coverage of net technical liabilities by fixed income assets at 1.3x (FY16: 1.2x), while a portion of the investment property portfolio backed individual life liabilities. Furthermore, other tradeable investment assets are available to augment liquidity, potentially catering for possible cash absorption from subsidiaries.

The reinsurer's business profile is strong, supported by a favourable strategic position and well diversified earnings. In this regard, Kenya Re's domestic market position (18% market share) is underpinned by compulsory cessions, and the affiliation with the Kenyan government, while earnings are fairly spread across different geographic locations and lines of business. The reinsurer's status as an established player was further cemented by the establishment of subsidiaries in strategic locations (in recent years), with the expectation of entrenching business relationships in Southern and West Africa. As such, the business profile is expected to remain strong, further supported by strong brand recognition and elevated underwriting capacity relative to local and regional players.

Kenya Re reflects adequate reserving, with long term policyholder obligations viewed to be very well funded. In this regard, the life fund evidences a large risk margin above the actuarially determined value of future benefits. Furthermore, short term reserves are viewed to be sufficient by an independent actuarial assessment. The excess of loss retrocession programme provides adequate capacity and reflects low retention levels relative to capital. In addition, the retrocession panel reflects sound aggregate rating strength.

The international scale rating factors in Kenya's sovereign rating, impacting the reinsurer's assets and revenue flows.

Upward rating movement is constrained by country and industry risk factors. Conversely, a material or sustained weakness in earnings capacity and/or liquidity could depress the reinsurer's credit profile, resulting in downward rating movement.

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NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2009)
Claims paying ability: $AA_{(KE)}$
Outlook: Stable

Last rating (July 2017)
Claims paying ability: $AA_{(KE)}$
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (September 2009)
Claims paying ability: BB+
Outlook: Stable

Last rating (July 2017)
Claims paying ability: BB
Outlook: Negative

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated May 2018
Criterial for Rating Long Term Insurance Companies, updated May 2018
Kenya Short Term Insurance Industry Statistics Bulletins, 2014-2017
Kenya Reinsurance Corporation rating reports, 2009-2017

RATING LIMITATIONS AND DISCLAIMERS

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Kenya Reinsurance Corporation participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Kenya Reinsurance Corporation.

The information received from Kenya Reinsurance Corporation and other reliable third parties to accord the credit ratings included:

- The 2017 audited annual financial statements
- 4 years of comparative audited numbers
- Unaudited interim results to 30 June 2018
- Budgeted financial statements for 2018
- Annual statutory returns to 31 December 2017
- Current year retrocession cover notes
- The Financial Condition Reports to 31 December 2017
- Actuarial valuation reports to 31 December 2017
- Other related documents.

The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S INSURANCE GLOSSARY

Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Enterprise Risk Management	ERM refers to an integrated or holistic approach to managing risk across an organisation, using clearly articulated frameworks and processes controlled from board level.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For an insurer, its exposure may also relate to the risk related to policies issued.
International Scale Rating (“ISR”)	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Intermediary	A third party in the sale and administration of insurance products.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
National Scale Rating (“NSR”)	National Scale credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.
Policyholder	The person in actual possession of an insurance policy.
Portfolio	All of the insurer’s in-force policies and outstanding losses, with respect to described segments of its business.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period, usually spanning a twelve to eighteen month period.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.

For a more detailed glossary of terms, please click here

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