GLOBAL CREDIT RATING CO.

GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

Kenya Reinsurance Corporation Limited

Kenya Reinsurance Analysis **August 2014**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	$AA_{(KE)}$	Stable	August 2015
Claims paying ability	International	BB+	Stable	August 2015

Financial data:

(US$'m Comparative)

	31/12/12	31/12/13
KShs/US$ (avg.)	85.90	86.10
KShs/US$ (close)	86.40	86.40
Total assets	275.3	325.9
Total capital	141.3	170.9
Cash & equiv.	114.8	140.2
GWP	92.5	112.0
U/w result	(6.3)	1.2
NPAT	21.7	28.7
Op. cash flow	7.3	1.4
Market cap.*	USD164m	
Market share**	20%	

*As at August 2014.

**Based on Kenya Re's local GWP relative to total Kenyan cessions.

Rating history:

Initial Rating (September 2009)

CPA NS:	$AA_{(KE)}$	Outlook:	Stable
CPA IS:	BB+	Outlook	Stable

Last Rating (August 2013)

CPA NS:	$AA_{(KE)}$	Outlook:	Stable
CPA IS:	BB+	Outlook	Stable

Related methodologies/research:

Criteria for Rating Insurance Companies (Updated July 2014).

Criteria for Rating Assurance Companies (Updated July 2014).

Kenya Reinsurance Corporation Limited ("Kenya Re") rating reports, 2009 – 2013.

East Africa Insurance Statistics Bulletin 2009-2013.

Primary Analyst
Marc Chadwick
Sector Head: Insurance
Chadwick@globalratings.net

Secondary Analyst
Rodwell Chevure
Junior Analyst: Insurance
Chevure@globalratings.net

Committee Chairperson
Sheri Few
Senior Analyst: Insurance
Few@globalratings.net

Analyst location: JHB, South Africa
Tel: +27 11 784-1771

Summary rating rationale

The ratings are based on the following key factors:

- Kenya Re holds a strong position in the local insurance market, with a stable GWP market share of 20% in F13. Local market positioning is sustained by compulsory cessions, and the affiliation with the Kenyan government (60% shareholding). Statutory terms pertaining to compulsory cessions, due for review in 2015, are expected by management to remain steady, providing Kenya Re with a secure revenue stream and steady position over the rating horizon.
- Kenya Re's position as an established reinsurer across East Africa contributes positively to the rating. Market positioning across the foreign portfolio is increasing, providing the reinsurer with a moderate level of regional (and, albeit to a lesser degree, cross-continental) market strength. The foreign portfolio is expected to be the majority income generator going forward.
- Kenya Re evidences a very strong level of risk-adjusted capitalisation, representing a key rating strength that is expected to persist over the rating horizon. Supported by retained income, the reinsurer's capitalisation remains supportive of its business plan. In this regard, the international solvency margin has remained robust over the review period, with forecasts pointing to sustained strong levels. Furthermore, statutory solvency remains well above the required minimum.
- Kenya Re adopts a balanced investment approach, supportive of sound liquidity metrics, which are expected to remain robust in the medium term. Furthermore, banking counterparty risk is moderate.
- Life policyholder obligations are viewed to be very well funded, with the life fund evidencing a large risk margin above the actuarially determined value of future benefits.
- Some degree of capital risk is, however, evident with respect to non-cash investments (combined property and listed equities amounted to 56% of FYE13 shareholders interest).
- Core profit generation has evidenced a favourable trend over the past 18 months, over which time Kenya Re has returned to underwriting profitability. GCR's view of the reinsurer's earnings capacity is favourably impacted by the improved cost containment exhibited during this period, providing the company with increased profit headroom going forward. Product risk is viewed to be at an intermediate level, impacted by the high levels of volatility and losses stemming for the two core books.
- The XoL retrocession programme provides adequate capacity and reflects low retention levels relative to capital. In addition, all retrocession placements are with secure rated entities.
- The international scale rating is impeded by Kenya's sovereign rating of B+, and the fact that the reinsurer's assets are almost entirely domiciled locally.

Factors that could trigger a rating action may include

Positive change: Kenya Re's rating currently matches the national scale ceiling applicable to entities operating within the Kenyan insurance industry. Accordingly, an upgrade of the rating could potentially follow a strengthening of key industry factors.

Negative change: The cancellation of the compulsory cessions, coupled with limited cover uptake through voluntary cessions to the reinsurer, may have medium term ramifications. In addition, sustained underwriting losses and/or a material change in the investment policy towards a more aggressive stance could be negatively viewed. Further, a protracted and material decline in capitalisation levels could impact adversely on the rating. .

Operating environment

Economic overview

Continuing the sound economic performance of prior years, Kenya's economy grew by a further 5.6% in 2013 (2012: 4.6%). This was slightly ahead of initial expectations (5% growth) and closely tracked the consolidated 5.9% GDP growth registered by all countries in Sub-Sahara Africa (excluding South Africa). The economic sentiment was buoyed by the agriculture sector (amidst favourable weather conditions in 1Q 2013), sustained sound consumptive demand and continued strong capital formation. In conjunction, these factors helped compensate for a heightened degree of socio-economic uncertainty, stemming from presidential elections in March 2013, a large scale fire at the country's major airport in Nairobi, as well as the terrorist attack on the Westgate shopping centre in September 2013. Going forward, economic conditions are anticipated to remain favourable as various infrastructure projects approach maturity, with GDP growth forecast to equate to 6.3% in 2014.

Following moderate inflationary pressure over the past two consecutive years, average inflation eased to 5.7% in 2013 (2012: 9.4%), owing to reduced pricing pressure on food and other non-fuel commodities. For 2014, inflation is anticipated to remain contained at a reasonable 6.6%. The Central Bank maintained the Central Bank Rate ("CBR") at 8.5% for most of 2013, aiming to consolidate monetary policy gains and to provide time for previous monetary policy decisions to gain traction. The 91-day Treasury bill rate advanced from 8.1% at the beginning of 2013 to 9.5% at year-end, with the 182-day Treasury bill rate following a similar trajectory (from 8.1% to 10.4%). The Kenyan equity market evidenced sustained resilience throughout 2013, with the *Nairobi Stock Exchange 20 Share Price Index* closing the year 19% higher at 4,927 points at 31 December 2013.

Table 1: Economic indicators	**2009**	**2010**	**2011**	**2012**	**2013**
Real GDP growth (%)	2.6	5.8	4.4	4.6	5.6
GDP per capita growth (%)	0.0	3.0	1.6	1.8	2.8
Avg. inflation (%)	9.2	4.0	14.0	9.4	5.7
Avg. 91 day TB rate (%)	7.4	3.6	7.0	12.8	8.9

Source: IMF and CBK.

The Kenyan Shilling evidenced moderate stability against the US Dollar in 2013, appreciating from KShs86.1/US$ at the beginning of the year to KShs83.7/US$ in May 2013 before shedding all the gains made in the months thereafter to close the year at KShs86.4/US$. For the first 4 months of 2014 currency stability was maintained, with the exchange rate registering at KShs86.9/US$ at 30 April 2014.

Industry overview

In comparison to its neighbouring East African jurisdictions, the insurance industry in Kenya is relatively well developed, with insurance penetration registering around 3% in recent years. This notwithstanding, both the life and non-life segments remain dominated by a few large players, whilst in the 2nd tier an unsustainably high number of players compete for business. This structure, coupled with limited product diversification in the market gives rise to a high degree of competition and sustained soft rates. Whilst the recent introduction of a minimum motor rates regime (effective 1 May 2014) is viewed as a constructive approach to sustain financial stability of the industry as a whole, its effectiveness remains subject to regulatory enforcement and the willingness to comply by industry participants. Competitive dynamics, however, are likely to persist over the short to medium term, as the Kenyan insurance market continues to attract interest from multi-national insurance groups, which have identified the local market as a gateway for their expansion into Sub-Sahara Africa. Coupled with increasing efforts by domestic insurers to enlarge their regional footprint, this saw the conclusion of a number of corporate transactions in recent months, with the foreign entities in most instances acquiring majority stakes.

Table 2: Key industry data	
Regulatory authority:	IRA
Min. capital req. (non-life insurance):	KShs300m
Min. capital req. (life assurance):	KShs150m
Min. capital req. (composite insurance):	KShs450m
Min. capital req. (reinsurer):	KShs800m
# of registered non-life insurers in 2013	24
# of registered composite insurers in 2013	12
# of registered life assurers in 2013	12
Market share of top 5 non-life/comp insurers 2013:	41.0%
Market share of top 5 life assurers 2013:	69.8%
Non-life insurance industry GWP in 2013:	KShs84.8bn
Life assurance industry GWP in 2013:	KShs44.4bn
Insurance penetration (% of GDP):	3.1%
Non-life insurers	
GWP growth 2013 (2012):	16.3% (24.0%)
Retention ratio 2013 (2012):	72.5% (72.4%)
Earned loss ratio 2013 (2012):	58.4% (58.8%)
Commission ratio 2013 (2012):	6.4% (7.9%)
Management exp. ratio 2013 (2012):	29.3% (27.3%)
U/w margin 2013 (2012):	5.8% (6.0%)
Largest risk classes 2013 (% of GWP):	Motor (39%); Medical (24%); Property (11%)

Source: IRA reports.

Resulting from prevailing regulation which mandates 3rd party liability cover and in light of a relatively shallow broad-based economic participation and low disposable income levels (which constrains demand for high value insurance cover), motor continues to dominate the line of business spread in the non-life arena (39% of GWP in 2013), followed by medical (24%) and property (11%). Broker representation in the market remains relatively strong, which collectively accounted for an estimated 65% of total non-life GWP in 2012 (with a few multi-national brokerages dominating the market). In turn, this augments the market position of established players in the 1st tier, as risks (particularly in the corporate space) are placed with these entities, owing to their greater underwriting capacity and perceived financial strength.

The Kenyan insurance industry is regulated by the Insurance Regulatory Authority ("IRA") and governed in accordance with the Insurance Act, which is being enacted under the Finance Bill 2011. As part of ongoing efforts to improve the legislative framework, a revised Draft Insurance Act 2011 has been circulated in the industry for comment in recent months, with the aim to have the draft legislation signed into law by the presidency and gazetted within the next 12 months (albeit in absence of a definitive time line). Concurrent to these efforts, the IRA issued various supplementary guidelines in recent months, targeted primarily at enhancing the financial stability of the insurance sector as a whole. These cover aspects such as *Actuarial compliance*, *Auditing* and *Risk management*[1]. The latter are expected to pave the way for the adoption of a comprehensive risk based capital management approach over the medium term as opposed to the prescription based regime currently adopted. Besides these initiatives various other broad legislative changes are currently being considered. These include:

- The adoption of a tariff table governing 3rd party liability pay-outs (with a maximum KShs3m settlement proposed in the event of death). Although welcomed at industry level, the enactment thereof is currently pending (subject to submissions made by the Kenya Legal Society).

[1] For further details on the issued guidelines, please refer to GCR's industry overview in the prior year's rating report.

- Following presidential elections in March 2013, a de-centralised, district based governing approach has been adopted. This is viewed positively, as it allows for more direct engagement and shorter tender approval timeframes.

Based on the IRA's draft insurance industry report for 2013, the non-life industry evidenced 16% GWP growth in 2013, which was notably below the 24% registered previously, indicative of an increasing degree of competition stemming from 2nd tier insurers. Risk retention was largely unchanged at 73%, which to a large extent is due to the sustained high prominence of motor as the primary line of business. The overall industry loss experience reflected a slight improvement to 58% in 2013, despite an upward trend in private motor losses on the back of uneconomical pricing (amidst uncertainty with regard to minimum rate structures). Relative acquisition costs reduced to 6% of NPE vs. 8% in 2012, which in view of relatively stable reinsurance rates points to improved distribution efficiencies. This, was countered by slightly elevated operating costs (29% of NPE), which saw the underwriting margin remain flat year-on-year, at 6%.

Corporate profile

Corporate history
Kenya Reinsurance Corporation Ltd ("Kenya Re") was established in December 1970 under the State Reinsurance Corporation Act, in order to advance the local insurance market. The company listed on the Nairobi Stock Exchange ("NSE") in August 2007.

Ownership structure
The Kenyan government owns 60% of Kenya Re. The balance is held by individuals and institutional investors via shares in free float on the NSE.

Strategic overview
Kenya Re offers a full range of reinsurance services (short term and long term products) to insurance companies in Africa, the Middle East and Asia. The company currently provides services to 159 cedants in 45 countries spread across the three regions.

Kenya Re has developed an extensive business plan for the 5 year period from F13 to end-F17. This plan incorporates a sustainable long term growth strategy (of between 15% and 20% GWP growth annually), while also applying increased focus towards deriving cost efficiencies, thereby enhancing profitability. The company is also positioning itself to adequately provide reinsurance to the oil sector in the coming years, following recent oil exploration in Kenya.

Kenya Re is ISO 9001:2008 certified, meeting the organisation's standard for Quality Management Systems.

Sovereign risk
Given the limited diversity of the current shareholding, with the Kenyan government (B+ rating; S&P) retaining a 60% stake in Kenya Re, the degree of sovereign interference risk is considered high. Apart from currently enjoying compulsory treaty cessions in the domestic market, the company does not benefit from any other government exemptions (unlike some other regional competitors).

Competitive positioning

Market positioning: Domestic portfolio
Kenya Re holds a strong position in the local insurance market, with a stable GWP market share of 20% in F13. Local market positioning is sustained by compulsory cessions, which secure 18% of domestic treaty premium placements. Voluntary cessions to the entity account for the remaining 2% market share captured by Kenya Re, inclusive of a small facultative book.

Statutory terms pertaining to compulsory cessions, due for review in 2015, are expected by management to remain steady, providing Kenya Re with a secure revenue stream and steady position over the rating horizon. Note is taken of the extension of the compulsory legal cession when the regulations were last reviewed (in 2007). Risk to revenue may arise should compulsory cessions be repealed or reduced. Key to mitigating such risk would be the uptake of voluntary business as a revenue substitute.

The local market is comprised of three key players benefitting from compulsory treaty cessions: Kenya Re with 18%, ZEP Re with 10% and Africa Re with 5%. Market capacity is further provided by other local and regional players. The entrance of new regional players in recent years has seen a small portion of market share dilution from the established reinsurers, although material revenue risk arising from this dynamic is viewed to be limited. Kenya Re views such companies as a complement to its business (and not as a competitive threat), providing additional capacity to the market.

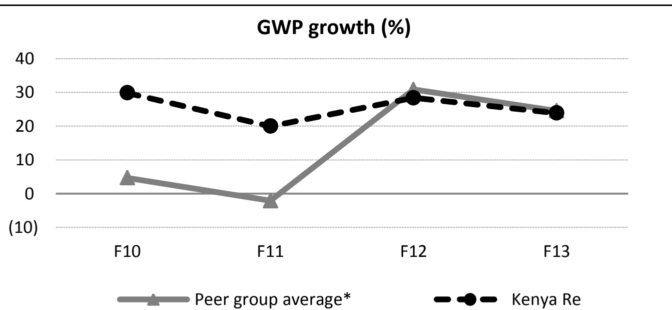
Market positioning: Foreign portfolio
Market positioning across the foreign portfolio is increasing, providing the reinsurer with a moderate level of regional (and, albeit to a lesser degree, cross-continental) market strength. Per-country penetration remains somewhat limited, given the entrenched positioning of local carriers coupled with market scale. The development of competitive strengths in the non-Kenyan Sub-Saharan Africa and international industries will allow for increasing contributions to the reinsurer's consolidated market position, particularly in the context of increased domestic competition. Such expansion represents both a key medium- and long-term rating consideration, and company internal objective.

Peer group analysis

Table 3: Peer group analysis	**F12**		**F13**	
	Kenya Re	**Peer avg**	**Kenya Re**	**Peer avg**
Operating ratios (%)				
GWP growth	22.4	30.9	24.1	24.5
Retention	96.6	75.1	95.9	75.8
Earned loss ratio	61.9	50.1	56.8	52.3
Comm ratio	28.8	24.6	29.0	23.6
Mgt exp ratio	18.1	22.8	12.9	17.1
Delivery cost ratio	46.9	47.5	41.9	40.7
U/w margin	(8.8)	2.4	1.4	6.9
Credit protection (%)				
Int. solvency	183.4	117.1	179.9	124.8
Cash / tech liabs (x)	1.1	0.7	1.2	0.9
Cash cover (months)	20.5	12.5	22.5	10.9

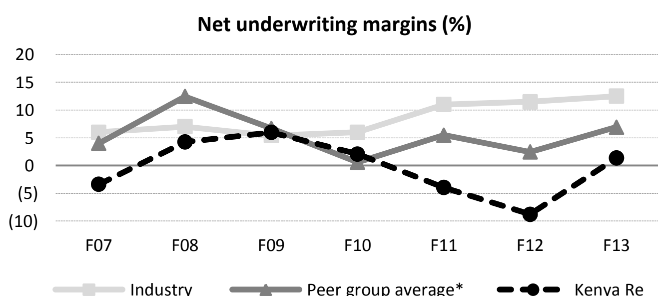
The following analysis compares the performance of Kenya Re to that of two local peers. The members in the peer group represent the largest locally licensed players in the market.

Peer group analysis: Growth
Kenya Re's growth rate has remained below that of peers over the past two years. Note is taken of the peers' ability to close the growth gap that was achieved prior to F12, which is partially indicative of the increasing level of competitiveness within the market. Nevertheless, GCR views Kenya Re as positioned to defend market share going forward, aided in large by the captive revenue stream.



*Peer group average excludes Kenya Re.

Peer group analysis: Profitability



*Peer group average excludes Kenya Re.

Kenya Re's underwriting margin has trailed that of peers as well as the underlying cedant market over the past three years. This is primarily attributable to a comparatively elevated claims experience.

The reinsurer's higher premium retention rate relative to peers facilitates an increased level of expense efficiencies relative to peers. This is largely offset, however, by the concomitantly lower level of commission recoveries.

Nevertheless, the improving delivery cost ratio over the past two years (F13: 42%: F12: 47%; F11: 53%) bodes well for future core earnings capacity. Related to this, the reinsurer recorded an improved underwriting margin of 1.4% in F13, representing the first positive trend movement over the past 4 years. The attainment of competitive underwriting margins represents a key medium-term management objective.

Earnings diversification

Geographic diversification

Kenya Re reflects a moderately good level of geographic diversification. The reinsurer reflects improved diversification in recent years, with the share of non-domestic business as a percentage of GWP having risen (from 38% in F08 to 46% in F13). This is viewed positively by GCR, as it allows for increased risk diversification, particularly in the context of increased domestic competition.

Table 4: Geographic diversification F13	KShs'm	%
Kenya	5,205.8	54.0
SSA*	2,051.5	21.3
Overseas	2,047.1	21.2
West Africa	223.0	2.3
Retakaful	107.1	1.1
Total	**9,634.5**	**100.0**

*Excluding Kenya and West Africa.

Distribution channel diversification

Broker sourced revenue accounted for 78% of GWP in F13, with the balanced being sourced via direct dealings. Some concentration exists towards to the two largest brokers, (30% and 14% of premiums respectively), although the inherently concentrated nature of reinsurance brokers in the region is noted.

Gross premium diversification

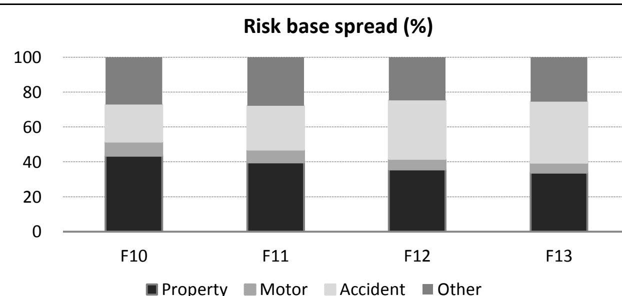
Gross premium growth amounted to 24.1% in F13 (F12: 22.4%), which is fairly aligned with the review period compound annual growth rate ("CAGR") of 27.8%. Premium generation was broad-based in F13, with accident, property and miscellaneous all contributing materially to GWP spreading. In this regard, the reinsurer's earnings stream is viewed to be reflective of a moderate, and relatively constant, level of diversification. The two largest lines of business account for a combined 70% the gross premium base.

- *Property*: The reinsurer's largest line of business on a gross basis is property. GWP for this class amounted to KShs 3.1bn, having grown by 20.7% in F13 (F12: 9.5%). As a result, property accounted for 36.0% of the gross premium base in F13 (F12: 37.1%).
- *Accident*: The reinsurer's secondary line of business is accident, accounting for 33.7% of the gross premium base in F13 (F12: 32.4%). The class recorded GWP growth of 29% in F13 (F12: 65.3%), and GWP of KShs2.9bn. Growth in healthcare risks is consistent with trends across the Kenyan insurance industry.
- With miscellaneous increasing in premium prominence, the combination of this class, coupled with transport, engineering and (to a lesser degree) motor, provides the reinsurer with a fairly diversified ancillary book.

Table 5: Earnings diversification (%)	GWP		NWP		Retention	
	F12	F13	F12	F13	F12	F13
Property	37.1	36.0	35.6	33.9	92.8	90.2
Transport	7.6	7.8	7.7	8.1	97.2	100.0
Motor	5.9	5.4	6.1	5.6	100.0	100.0
Accident	32.4	33.7	33.6	35.1	100.0	100.0
Guarantee	0.0	0.0	0.0	0.0	0.0	0.0
Liability	1.2	1.4	1.3	1.5	100.0	100.0
Engineering	10.1	7.6	10.4	7.9	99.6	100.0
Miscellaneous	5.7	8.1	5.4	7.9	91.5	93.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**96.6**	**95.9**

Net premium diversification

Net premium growth remained constant at 23.3% in F13 (F12: 23.4%). Very high overall retention (F13: 96%) results in risk premium diversification mirroring that of the gross premium base, with property and accident lines contributing 69% of NWP. Product risk is viewed to be at an intermediate level, negatively impacted by the high levels of volatility and losses stemming from the two core books (see "Profitability" below).



Life business

Premiums are underpinned by the mandatory ruling in 2009 that all life reassurance business be domiciled in Kenya. Notwithstanding initiatives to penetrate other African territories, the domestic market continues to dominate life business (95% of GWP in F13). In line with the underlying insurance market, 87% of premiums pertain to group life, with individual life largely retained for the net account of insurers. Given limited diversification in the domestic life assurance arena, cedant concentration is deemed high. Specifically, the top 5 cedants represented over 50% of GWP (single largest: 27.9%).

Profitability

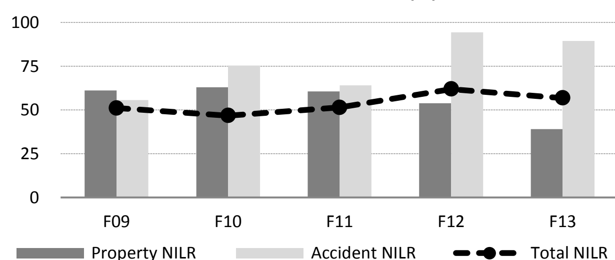
Accounting
A 5-year financial synopsis is given at the back of this report. In view of the Kenyan government's majority shareholding in Kenya Re, the reinsurer's accounts are audited by the Auditor General. An unqualified opinion was issued for the 2013 financial statements.

Table 6: Profitability (%)	Net loss ratio		Delivery cost ratio		Net u/w margin	
	F12	F13	F12	F13	F12	F13
Property	53.8	39.1	50.8	46.7	(4.6)	14.2
Transport	47.0	38.8	48.6	41.7	4.4	19.4
Motor	80.8	65.0	24.1	22.2	(4.9)	12.8
Accident	94.3	89.4	45.0	39.0	(39.4)	(28.4)
Guarantee	0.0	0.0	0.0	0.0	0.0	0.0
Liability	35.6	26.0	42.7	37.8	21.7	36.2
Engineering	18.3	22.5	50.5	45.0	31.2	32.5
Miscellaneous	28.5	45.5	48.7	45.8	22.8	8.7
Total	**61.9**	**56.8**	**46.9**	**41.9**	**(8.8)**	**1.4**

Claims experience
The net incurred loss ratio decreased to 56.8% in F13 (F12: 61.9%), trending towards the review period average of 54.9%. The loss ratio is projected to decrease to 53.3% in F14.

Table 7: Contribution to change in loss ratio (%)	F10	F11	F12	F13
Previous ratio	**51.1**	**46.8**	**51.4**	**61.9**
Property	1.1	(2.8)	(4.9)	(6.5)
Transport	1.3	(1.3)	(0.1)	(0.7)
Motor	(11.3)	10.5	2.3	(1.5)
Accident	5.6	0.4	13.6	2.1
Guarantee	0.0	0.0	0.0	0.0
Liability	(0.7)	(0.4)	0.6	(0.1)
Engineering	1.2	0.0	(1.5)	0.0
Miscellaneous	(1.5)	(1.8)	0.4	1.6
Total change	***(4.3)***	***4.7***	***10.5***	***(5.2)***
Current ratio	**46.8**	**51.4**	**61.9**	**56.8**

The net incurred loss ratio was positively impacted by the decrease in the property claims experience. The loss ratio for this line evidenced a 14.7 percentage point decrease to 39.1% in F13. This ratio was also positively impacted by the decrease in the motor claims experience, which reduced to 65%. (F12: 81%).



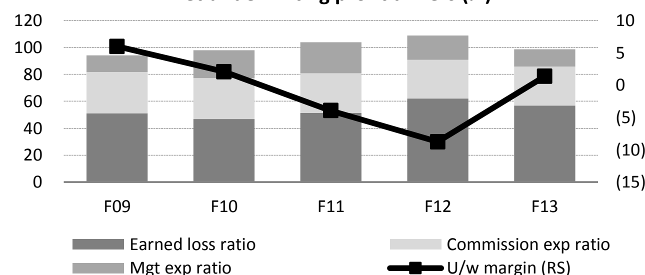
The accident loss ratio reduced to 89.4% (F12: 94.3%), albeit remaining notably elevated, and a negative contributor to technical profitability. Management ascribed the reduced claims ratio to a decreased out-patient claims frequency, as well as decreased fraudulent activity.

Commission
The net commission expense ratio was stable 29% in F13. Business procurement expenses dominate the reinsurer's total cost base. This is a function of high premium retention rates (with minimal commission recoveries as a set-off), with limited headroom to negotiate commission rates down. New business is expected to be derived at a greater relative cost in F14, as evidenced by the forecast 30.9% commission ratio (F13: 29%).

Expenses
Continued debtors book clean-up exercises reduced management expenses by 12.4% to KShs1bn in F13. Against strong NPE growth, this translated to a 12.9% expense ratio (F12: 18.1%), representing a four year low. The expense ratio measured well below the review period average of 17.2%. The management expense ratio benefited from increased scale efficiencies, albeit registering above the budgeted ratio of 8.9%.

Net delivery costs increased by 10.3% to KShs3.2bn in F13. The net delivery cost ratio decreased to 41.9% in F13 (F12: 46.9%; review period average: 46.6%) . The delivery cost ratio is forecast to increase to 43%.

Net underwriting result
As a result of the above, the net underwriting result equated to KSH102.6m in F13 (F12: KSH-540.6m). This represented a notable improvement over the previous year, and the first underwriting surplus since F10. Accordingly, the underwriting margin improved to 1.4% in F13 (F12: -8.8%). This measured above the review period average of -1.5%.



While the insurer has achieved a moderately weak level of aggregate underwriting profitability over the review period, the volatility of the underwriting result has measured at very low levels over the past 5 years.

Going forward, the reinsurer expects the recent positive trend to continue, with the underwriting margin budgeted at 3.7%. This expectation is premised on the benefits that are expected to be derived from the enhanced underwriting measures that have been put in place. Accordingly, GCR considers underwriting profit potential to have strengthened relative to previous years. Large event-driven property losses, or continuing attritional losses from the accident account, continue to represent the profit risks.

Net operating result
Investment income remained stable in F13. As a result, the investment yield (excluding fair value movements) reduced to 10.1% (F12: 12.3%). Investment income as a proportion of NPE amounted to 23.2% in F13 (F12: 28.8%). In conjunction with the underwriting result achieved, this saw the operating margin strengthen to 24.5% in F13 (F12: 20.0%). Investment returns accounted for 103.7% of operating profits in F13 (F12: 146.6%), relative to a review period average contribution of 121.6%.

Net profit result
NPAT increased by 40.3% to KShs1.7bn in F13, following the significant increase in GWP. The return on equity increased to 12.6%, and amounted to 17.1% inclusive of unrealised fair value movements. This compared positively with to the review period average return (9.4%), although this was below the company's internal target return of 22%. Note is also taken of a 30% taxation rate effective 1 January 2013, which follows a 5-year concessionary rate of 20%.

Table 8: General business performance (KShs'm)	F13		F14	
	Actual	Budget	Actual YTD*	Budget
GWP	8,555.3	8,068.0	4,543.6	9,476.7
NWP	8,206.7	7,326.0	4,140.7	8,908.1
NPE	**7,586.3**	**6,752.0**	**3,822.6**	**8,539.5**
Claims	(4,306.5)	(3,120.0)	(1,990.7)	(4,548.8)
Commission	(2,202.4)	(1,858.0)	(1,126.5)	(2,635.7)
Mgmt expenses	(974.9)	(603.4)	(343.2)	(1,035.3)
U/w result	**102.6**	**1,170.6**	**362.2**	**319.7**
Investment income**	1,757.0	2448.0	1,197.3	2,416.2
Other income/(exp)	76.5	(212.6)	26.4	29.1
Tax	(241.2)	(1,026.0)	(475.8)	(644.6)
NPAT	**1,694.9**	**2,380.0**	**1,110.1**	**2,120.3**
Unrealised movements	612.3	0.0	0.0	0.0
Comp. income	516.3	0.0	0.0	0.0
Retained earnings	**2823.5**	**2,380.0**	**1,110.1**	**2,120.3**
Dividend	(420.0)	0.0	(56.6)	0.0
Total capital	*14,762.0*	*6,346.7*	*15,815.5*	*16,882.3*
Key ratios (%)				
GWP growth***	24.1	17.1	6.2	10.8
Retention	95.9	90.8	91.1	94.0
Earned loss ratio	56.8	46.2	52.1	53.3
Commission ratio	29.0	27.5	29.5	30.9
Mgmt expense ratio	12.9	8.9	9.0	12.1
U/w margin	1.4	17.3	9.5	3.7
Op. margin	24.5	53.6	40.8	32.0
RoR (gross)	13.6	29.5	24.4	14.7
RoR (net)	13.6	29.5	24.4	14.7
Solvency***	179.9	186.6	191.0	189.5

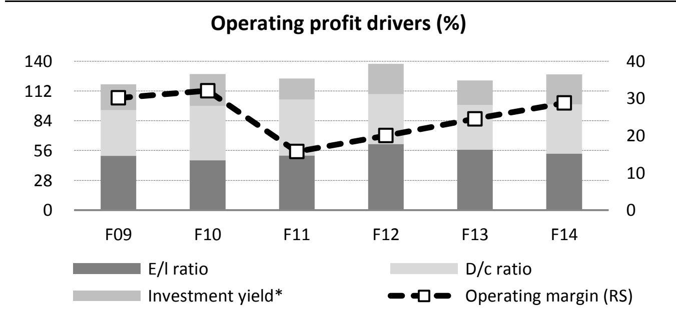
*6 months to June 2014

**Excludes unrealised movements.

***Annualised for year to date results.

Prospective

GWP growth is forecasted to decrease to 10.8% in F14, with gross premiums expected to amount to KShs9.5bn. Risk retention is budgeted at a relatively stable at 94%. Basing on past experience we expect the percentage contribution of each premium to the underwriting margins to increase.



The key revenue driver will continue to be investment income. Bottom line profitability is expected to weaken to Kshs2.1bn in F14. Year to date figures display a comparatively strong growth trend thus far, with annualised premium growth amounting to 6.2%. This is expected to increase given important renewals in H2. Furthermore, underwriting profitability for the corresponding period is favourable, given containment of both claims and expenses,

Cognisance is taken of an ongoing taxation review of Kenya Re by the Kenya Revenue Authority ("KRA"), relating to the historical calculation of broker profits and commissions. The KRA's preliminary findings point to an assessed tax amount due of KShs1.2bn Kenya Re are of the opinion that this amount is not payable, although had provided for a small portion at FYE13 (KShs57m). Assuming a worst case scenario on this contingent liability, adjusted shareholders interest at FYE13 would reduce to KShs13.6bn, translating to international solvency of 165%.

Life business

Total income remained stable around KShs1.5bn, representing growth of 4% over F13. On the expenditure side, a sharp decrease in relative benefits paid was partly offset by an increase in net commission expenses. As a result, total outgo came in 1.2% below the previous year, amounting to 43.5% of total income (F12: 45.8%). Overall, total income exceeded total outgo by KShs856m in F13 (F12: KShs791m).

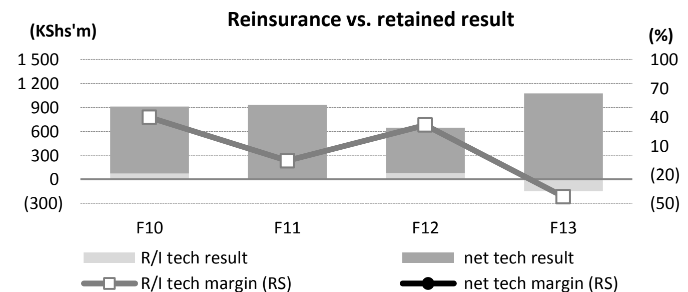
Consolidated

Investment income benefited from a sustained high interest rate environment in F13, increasing to KShs1.8bn. Including other income (KShs333m from KShs298m), total income registered at KShs2.3bn in F13 (F12: KShs2.3bn. On the back of this, Kenya Re posted net profits after tax of KShs2.5bn (F12: KShs1.9bn). This translated to a ROE of 26.6% (F12: 20.3%). After accounting for unrealised investment and revaluation gains of a combined KShs916m (F12: KShs1.2bn), retained income totalled KShs2.9bn (F12: KShs4.6bn). Kenya Re declared a KShs280m dividend, translating to dividend cover of 9x (F12: 9x). On a cumulative basis, the reinsurer has generated net retained income (after dividends) of KShs9.1bn over the review period.

Retrocession

Table 9: Retrocession matrix 2014 Non-life (KShs'm)	Max. net retention	Total capacity
XOL treaties (# of layers)		
Fire, CAR & engineering CAT (4)	30/50	5bn
Marine cargo & hull (3)	12.5	300
Miscellaneous accident (3)	10	250

For non-life business, Kenya Re's treaty retrocession programme comprises non-proportional placements only. The programme is led by secure rated GIC India. The structure of the treaty retrocession programme for 2014 is unchanged relative to the previous year. Capacity on fire/engineering XOL has, however, been enhanced to KShs5bn from KShs3bn previously. Maximum net retention per risk on fire/ engineering XoL is unchanged at KShs30m per risk and KShs50m per event (0.3% of F13 capital). Life business is covered via a surplus treaty (led by Swiss Re at 95% participation), providing maximum capacity of KShs17.5m, with the largest net retention per life limited to KShs2.5m. Facultative outward transactions remain negligible. Accumulation risk is not currently modelled, although more advanced risk modelling and measurement techniques are expected to be introduced through the upcoming roll-out of the ERM framework.



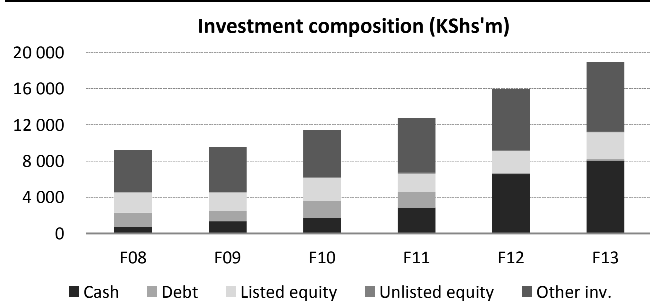
Kenya Re reported a KShs150m net payment from retrocessionaires (F12: KShs75m net recovery), given a combination of high loss incidents in F13. This translated into a reinsurance technical margin of -43.1%, which compares to the 5-year average reinsurance technical margin of 18%.

Table 10: General business Retrocession result (KShs'm)	F10	F11	F12	F13
Premium ceded	(178.2)	(237.9)	(236.0)	(348.6)
Claims recovered	107.0	251.2	160.0	498.5
Commission recovered	0.4	0.1	1.2	0.3
Net result	**(70.8)**	**13.4**	**(74.8)**	**150.2**

Asset management

Table 11: Investments	FYE12		FYE13	
	KShs'm	%	KShs'm	%
Cash on hand	173.4	1.1	180.7	1.0
Short term deposits	2,397.2	15.0	1,162.5	6.1
Government bonds	3,947.7	24.7	6,726.4	35.5
Short term debt	0.0	0.0	0.0	0.0
Cash and equivalents	***6,518.2***	***40.8***	***8,069.6***	***42.6***
Interest securities	154.0	1.0	141.8	0.7
Listed shares	2,436.7	15.2	2,959.5	15.2
Unlisted shares	90.0	0.6	60.0	0.3
Investment property	4,885.0	30.6	5,314.0	27.4
Loans/Mortgages	521.5	3.3	734.5	3.8
Associates	1,340.0	8.4	1,652.9	8.5
Other investments	40.0	0.3	28.1	0.1
Non-cash investments	***9,467.3***	***59.2***	***10,890.8***	***57.4***
Total investments	**15,985.5**	**100.0**	**18,960.4**	**100.0**

Total investments
The investment portfolio increased by 18.6% to amount to KShs19bn in F13. This was largely attributable to a rise in government securities. Investments represent 128.4% of the capital base, and 83% of the asset base. The portfolio covered net technical provisions by 2.7x in F13 (F12: 2.8x). The split between cash and financial assets equated to 42.6% : 57.4% in F13 (F12: 40.8% : 59.2%).



Cash and liquidity
Cash and equivalents amounted to KShs8bn in F13 (F12: KShs6.5bn). The high interest rate environment together with the increased investment income resulted in the significant increase in cash and equivalents (with management allocating increased funding towards the high yielding, low-risk assets). The y/y movement in cash amounted to 23.8% in F13 (F12: 128.2%).

Cash coverage of technical provisions increased to 1.2x in F13 (F12: 1.1x). Against a 13.1% increase in claims incurred, cash coverage of average monthly claims amounted to 22.5 months in F13 (F12: 20.5 months). Coverage of monthly underwriting outflows amounted to 12.9 months in F13 (F12: 11.7 months).

Financial asset capital exposure
The value of financial assets amounted to KShs10.9bn in F13 (F12: KShs9.5bn). The y/y movement in such assets amounted to 15.0% in F13 (F12: -4.3%). Financial assets correspond to 73.8% of capital (F12: 77.6%). Excluding the interest security portfolio, financial assets correspond to 72.8% of capital (F12: 76.3%). This is mainly composed of exposure to equity (20.5%) and property (36%). The level of risk asset exposure is viewed to be high. As evidenced in the above graph, Kenya Re has kept its investments in line with its strategic investment policy.

Listed equity
On the back of the recovery in the NSE20 during 2013, Kenya Re reported unrealised investment gains of a sizeable KShs612m. After accounting for net disposals of KShs210m, the equity portfolio registered at KShs3.0bn at FYE13, (FYE12: KShs2.4bn). The y/y movement in these assets amounted to 21.5% in F13 (F12: 21.3%). This translated into an unchanged 15% of invested assets (F12: 15%), and an unchanged 20.5% of FYE13 capital.

Applying a conservative 40% haircut to listed equities translates to a reduction in international solvency to 158% for F13, albeit remaining robust. The equity portfolio remains concentrated to two counters (namely East African Breweries Ltd and Kenya Commercial Bank), constituting a respective 20% and 16% of the total, which implies greater investment and capital risk.

Property
Following fair value gains of KShs355m and net additions of KShs74m, investment property rose 9% and comprised 27.4% of invested assets (FYE12: 30.6%). Property investments amounted to KShs5.3bn in F13 (F12: KShs4.9bn). The y/y movement in investment property amounted to 8.8% in F13 (F12: 10.9%). Gross rental income accrued from these properties totalled KShs476m (F11: KShs443m), translating to a 9% rental yield (F12: 9%).

The valuation was conducted independently by Chapter Property Consultants Limited. The property portfolio includes a number of commercial buildings (97% occupancy) and an undeveloped stand in Nairobi. Note is also taken of the fact that Kenya Re is in the process of constructing a KShs1.5bn building in Upper Hill, Nairobi. Ground breaking is expected to be in 2015 and various financing models will be reviewed.

Receivables
Receivables amounted to KShs2.1bn in F13 (F12: KShs1.8bn). The y/y movement in these assets amounted to 18.7% in F13 (F12: 21.8%). This stemmed from increases in receivables from non-premiums debtors, as well as reinsurance receivables.

While the reinsurer targets an average turnaround in collections of 120 days, its debtors policy requires that all amounts outstanding over 2 years be fully provided. In GCR's opinion, this is not conservative, with a 1 year timeframe more appropriate. Against GWP growth of 24.1%, Kenya Re's debtor balances amounted to KShs3.2bn at FYE13 (FYE12: KShs2.8bn), of which KShs1.7bn was overdue for longer than one year. Average debtors days amounted to 86 days in F13 (F12: 89 days).

Investment in associate
The associate investment relates to Kenya Re's stake in ZEP Re. This was valued at a higher KShs1.7bn at FYE13, underpinned by KShs257m in profits.

Life business
Total life investments rose 16.5% to KShs5.2bn at FYE13. This was closely aligned to growth in the life fund, translating to stable coverage of 1.0x. The composition of the investment portfolio remained highly geared towards cash and equivalents (above 76% in both F12 and F13), with a strong weighting towards short term deposits and government securities. Non-cash investments encompass investment property, which following net additions of KShs9m and fair value gains of KShs87m was reported 7% higher at KShs1.1bn. Rental

income amounted to KShs143m, translating to an unchanged yield of 12.5%.

Asset conversion & currency/counterparty risk

Combined F13 general and life cash & deposits (excluding government securities) were spread across 9 institutions. Kenya Commercial Bank represented 21% of the total, followed by National Bank of Kenya (17%) and Cooperative Bank (15%). In line with prior years, cash reserves are predominantly Kenyan Shilling denominated (99% of the total). Furthermore, all government securities pertain to the Kenyan sovereign. This should be viewed in the context that around 40% of premiums and associated liabilities are denominated in foreign currency, which implies heightened currency risk upon conversion.

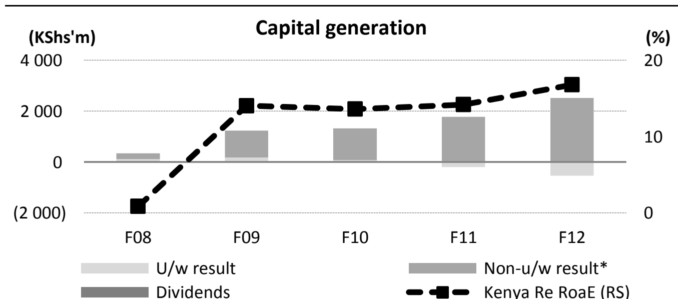
Table 12: Cash by counterparty (KShs'm)	KShs	US$	Total	% of total
Housing Finance Corporation	520.0	0.0	520.0	6.4
Kenya Comm. Bank (AA(KE); GCR)	972.5	1.2	973.7	12.0
National Bank of Kenya	171.6	0.0	171.6	2.1
Citibank (Kenya)	50.1	0.0	50.1	0.6
Bank of Africa (A-(KE); GCR)	33.6	0.0	33.6	0.4
Diamond Trust (A+(KE); GCR)	702.4	8.1	710.6	8.8
Cooperative Bank	627.6	0.0	627.6	7.8
Consolidated Bank	197.8	0.0	197.8	2.4
NIC Bank (A+(KE); GCR)	421.7	3.7	425.3	5.3
Bank of Africa	520.7	0.0	520.7	6.4
CBK T-Bills & Gov. security	3,851.7	0.0	3,851.7	47.7
Total	**8,069.6**	**13.0**	**8,082.6**	**100.0**
% of cash & equivalent	*99.8*	*0.2*	*100.0*	-

In view of the fact that Kenya Re's assets are primarily domiciled locally, this implies heightened exposure to the sovereign risk of Kenya. This is a constraining factor to the international rating.

Capital adequacy

Capital generation

Cumulative NPAT has totalled KShs5.2bn over the review period, 121.6% of which was generated through realised earnings. No dividends have been over the review period. Accordingly, shareholders' funds have increased at a four year CAGR of 15.3%. According to management, dividend payments are generally capped at 30% of retained earnings.



Capital adequacy

Total capital amounted to KShs14.8bn at FYE13, reflecting y/y growth of 20.9%. Against NWP growth of 23.3%, the international solvency margin registered at 179.9% in F13 (F12: 183.4%). According to management, international solvency is managed in line with regulatory norms. International solvency has averaged 200.4% over the past five years. This is above the peer group average, and reflects a very high level of capital strength relative to the risk premium base. As a result of increased investment income the international solvency is forecast to increase to 189.5% in F14, with capital expected to amount to KShs16.9bn. Adjusting capital for outstanding amounts over 180 days, as well as the declared dividend of KShs420m, international solvency reduces to 154%.

Kenya Re evidenced a very strong level of risk-adjusted capitalisation, representing a key rating strength that is expected to persist over the rating horizon. On a risk-adjusted basis, the largest component of the risk base pertains to market risk due to the large investment in quoted equities as well as investment property. The reinsurer also bears exposure to underwriting risk due to the nature of the business. However, the company has adopted mechanisms which are expected to contain loss ratio volatility and weaknesses in key classes going forward.

Kenya Re comfortably complied with the regulatory minimum of KShs800m for reinsurance companies. In addition, net admitted assets of KShs9.9bn translated to 184% of the prior year's net written premiums. This is more than 12 times the minimum cover stipulated by the IRA.

Capital management

Kenya Re has been working with Ernst & Young South Africa's actuarial department over the past year to develop and deploy a comprehensive capital management framework. This project extends to the end of 2014 and has fixed time scales and frequent monitoring in place.

The capital management framework integrates capital management with the business strategy and enterprise risk management. This allows Kenya Re to define its capital adequacy requirements, and build a risk-based capital quantification model. Kenya Re has a defined risk appetite that allows for prudential decisions to be made within risk tolerances, and relative to risk target levels (which will be tied to the capital framework, once finalised).

Enterprise risk management

In consultation with an external consultant, Kenya Re has begun working on an ERM framework, overseen by a recently established Risk Committee. The assessment indicates that Kenya Reinsurance corporation's risk management processes have improved in the last two years. There has been improvements in all areas especially risk governance and risk monitoring and reporting. The results of the assessment indicate that the organisation has developed and implemented most of the key ERM practices. The current maturity level of Kenya Re corporation's risk management processes is developing.

The establishment of the combined capital-ERM frameworks are viewed positively by GCR, providing Kenya Re with technical risk and capital management tools (areas historically representing relative rating weaknesses within the business). The integration of these systems into operations and decision-making processes may represent a credit positive over the medium term, particularly if evidence of aligned business decisions take effect within this.

Technical provisions

Life fund actuarial valuation

Table 13: Actuarial valuation (KShs'm)	F11	F12
Life fund	**3,742.8**	**4,519.9**
Actuarial liability	(2,285.7)	(2,073.0)
Actuarial surplus	**1,457.1**	**2,446.9**

An independent actuarial evaluation of the life fund is undertaken annually, with the 2012 report conducted by Alexander Forbes. Based on the most recent actuarial report available to GCR, Kenya Re's life fund registered a solid KShs2.5bn in actuarial surplus (F11: KShs1.5bn surplus). The actuaries recommended that the F12 surplus be carried forward unappropriated in the life fund.

Kenya Reinsurance Corporation Limited

(KShs in millions except as noted)

Year ended : 31 December		2009	2010	2011	2012	2013
Short Term Insurance						
Income Statement						
Gross written premium (GWP)		3,209.1	4,286.7	5,631.1	6,891.6	8,555.3
Reinsurance premiums		(168.0)	(178.2)	(237.9)	(236.0)	(348.6)
Net written premium (NWP)		**3,041.1**	**4,108.6**	**5,393.2**	**6,655.6**	**8,206.7**
(Increase) / Decrease in insurance funds		(135.7)	(427.0)	(513.3)	(505.5)	(620.4)
Net premiums earned		**2,905.4**	**3,681.6**	**4,879.9**	**6,150.1**	**7,586.3**
Claims incurred		(1,484.1)	(1,721.4)	(2,509.0)	(3,809.3)	(4,306.5)
Commission		(894.6)	(1,119.3)	(1,438.8)	(1,768.3)	(2,202.4)
Management expenses		(352.8)	(764.9)	(1,125.3)	(1,113.0)	(974.9)
Underwriting profit / (loss)		**173.8**	**75.9**	**(193.1)**	**(540.6)**	**102.6**
Investment income (incl. realised gains)		701.6	1,103.9	958.6	1,770.7	1,757.0
Other income / (expenses)		0.0	(285.1)	72.1	94.3	76.5
Taxation		(133.6)	(97.6)	(104.5)	(116.2)	(241.2)
Net income after tax		**741.9**	**797.1**	**733.1**	**1,208.2**	**1,694.9**
Unrealised gains / (losses)		354.4	434.3	741.1	648.2	612.3
Other comprehensive income		(208.4)	232.2	(751.6)	494.8	516.3
Retained surplus / (deficit)		**887.9**	**1,463.6**	**722.6**	**2,351.1**	**2,823.5**
Dividends		(300.0)	(210.0)	(210.0)	(280.0)	(420.0)
Balance Sheet						
Shareholders interest		**8,365.1**	**9,537.5**	**10,058.9**	**12,207.9**	**14,762.0**
Admissible tier II debt		0.0	0.0	0.0	0.0	0.0
Total capital		**8,365.1**	**9,537.5**	**10,058.9**	**12,207.9**	**14,762.0**
Net UPR		1,216.4	1,643.4	2,156.7	2,662.2	3,282.7
Net OCR & IBNR		2,205.6	2,212.3	2,373.6	3,050.0	3,702.7
Other liabilities		411.7	660.3	752.8	1,386.7	1,098.7
Total capital & liabilities		**12,198.9**	**14,053.5**	**15,342.0**	**19,306.9**	**22,846.1**
Fixed assets		27.9	86.3	87.2	80.5	112.9
Investments		8,209.4	9,707.6	9,888.3	9,467.3	10,890.8
Cash and equivalents		1,335.8	1,736.0	2,856.8	6,518.2	8,069.6
Other current assets		2,625.8	2,523.5	2,509.8	3,240.9	3,772.8
Total assets		**12,198.9**	**14,053.5**	**15,342.0**	**19,306.9**	**22,846.1**
Key Ratios						
Solvency						
Shareholders funds / NWP	%	275.1	232.1	186.5	183.4	179.9
Adjusted international solvency margin*	%	n.a.	n.a.	179.0	178.8	154.0
International solvency margin	%	275.1	232.1	186.5	183.4	179.9
Statutory solvency margin	%	0.3	1.2	0.1	0.8	0.7
Statutory CAR coverage	x	n.a.	n.a.	n.a.	1.1	2.9
Liquidity						
Claims cash coverage	mth	10.8	12.1	13.7	20.5	22.5
Cash / Technical liabilities	x	0.4	0.5	0.6	1.1	1.2
Underwriting profitability						
GWP growth rate	%	11.0	33.6	31.4	22.4	24.1
Premium retention rate	%	94.8	95.8	95.8	96.6	95.9
Net incurred loss ratio	%	51.1	46.8	51.4	61.9	56.8
Net commission ratio	%	30.8	30.4	29.5	28.8	29.0
Management expense ratio	%	12.1	20.8	23.1	18.1	12.9
Delivery cost ratio	%	42.9	51.2	52.60	46.9	41.9
Underwriting margin	%	6.0	2.1	(4.0)	(8.8)	1.4
Combined ratio	%	94.0	97.9	104.0	108.8	98.6
Net profitability						
Operating margin	%	30.1	32.0	15.7	20.0	24.5
Investment yield (excluding unrealised gains / losses)	%	7.5	10.5	7.9	12.3	10.1
Investment yield (including unrealised gains / losses)	%	11.3	14.7	14.1	16.8	13.6
ROaE (excluding unrealised gains / losses)	%	9.3	8.9	7.5	10.9	12.6
ROaE (including unrealised gains / losses)	%	13.8	13.8	15.0	16.7	17.1
Dividend cover	x					
Reserving						
Net UPR / NWP	%	40.0	40.0	40.0	40.0	40.0
Net OCR & IBNR / NWP	%	72.5	53.8	44.0	45.8	45.1

*Capital has been adjusted to exclude the proposed / declared dividend, and premium debtors in excess of 180 days

Kenya Reinsurance Corporation Limited

(KShs in millions except as noted)

Year ended : 31 December		2009	2010	2011	2012	2013
Long Term Assurance						
Income Statement						
Gross premiums		**634.6**	**694.2**	**982.8**	**1,052.6**	**1,089.9**
Net premiums received		552.5	592.3	854.7	904.2	995.6
Other income		0.0	0.0	0.0	0.0	0.0
Investment income and realised profits		208.1	248.7	290.6	555.5	520.7
Total income		**760.6**	**841.0**	**1,145.4**	**1,459.7**	**1,516.3**
Claims paid and outstanding		(217.4)	(229.4)	(295.8)	(464.9)	(395.4)
Surrenders		0.0	0.0	0.0	0.0	0.0
Annuities		0.0	0.0	0.0	0.0	0.0
Commissions		(160.8)	(128.3)	(263.9)	(203.3)	(264.6)
Management & other expenses		0.0	0.0	0.0	0.0	0.0
Total outgo		**(378.2)**	**(357.7)**	**(559.7)**	**(668.3)**	**(660.0)**
Excess income to outgo		**382.4**	**483.3**	**585.7**	**791.4**	**856.3**
Tax		(1.4)	(21.0)	(17.7)	(26.5)	(27.2)
NPAT		**381.0**	**462.4**	**568.0**	**764.9**	**829.1**
Unrealised gains / (losses)		58.0	23.0	97.4	80.8	86.2
Other comprehensive income		0.0	0.0	0.0	0.0	0.0
Comprehensive income		**439.0**	**485.4**	**665.4**	**845.7**	**915.4**
Transfer to Actuarial Reserve		360.8	406.2	575.5	732.8	714.5
Shareholder earnings		**78.3**	**79.2**	**89.9**	**112.8**	**200.8**
Balance Sheet						
Shareholders interest		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Life fund		2,761.2	3,167.4	3,742.8	4,475.7	5,190.2
Other reserves		0.0	0.0	0.0	0.0	0.0
Other liabilities		12.4	0.8	1.1	2.8	121.7
Total reserves and capital		**2,773.7**	**3,168.2**	**3,743.9**	**4,478.5**	**5,311.9**
Investments		833.0	856.0	960.0	1,050.0	1,145.0
Cash and equivalent		1,858.2	2,223.0	2,662.6	3,399.5	4,040.2
Other assets		82.5	89.2	121.4	29.0	126.8
Total assets		**2,773.7**	**3,168.2**	**3,743.9**	**4,478.5**	**5,311.9**
Key Ratios						
Profitability						
Premium growth	%	25.3	7.2	44.3	5.8	10.1
Total outgo : Total income	%	49.7	42.5	48.9	45.8	43.5
Benefits paid : Total outgo	%	57.5	64.1	52.9	69.6	59.9
Commissions : NWP	%	29.1	21.7	30.9	22.5	26.6
Management & other expenses : NWP	%	0.0	0.0	0.0	0.0	0.0
Claims cash coverage		0.7	0.7	0.7	0.8	0.8
Solvency and liquidity						
Shareholders' funds : life fund	%	0.0	0.0	0.0	0.0	0.0
Cash & equivalents : life fund	%	0.7	0.7	0.7	0.8	0.8
Investments : life fund	%	1.0	1.0	1.0	1.0	1.0
Investment returns						
Investment yield	%	8.1	8.4	8.4	13.5	10.8
Growth rates						
Total assets	%	12.5	14.2	18.2	19.6	18.6
Life fund	%	15.0	14.7	18.2	19.6	16.0
Profitability						
ROaE	%	n.a	n.a	n.a	n.a	n.a
Dividend cover	x	n.a	n.a	n.a	n.a	n.a

Kenya Reinsurance Corporation Limited

(KShs in millions except as noted)

Year ended : 31 December	2009	2010	2011	2012	2013
Consolidated Insurance					
Consolidated Profit And Loss Statement					
NPAT General	681.7	419.1	687.0	1,097.5	1,638.0
NPAT Life	381.0	462.4	568.0	764.9	829.1
Total NPAT	**1,062.8**	**881.4**	**1,255.0**	**1,862.4**	**2,467.2**
Total unrealised gains	375.1	1 273.1	21.9	1 247.6	916.4
Total other comp. income	998.9	1 669.2	611.5	2 264.3	200.8
Transfer to Actuarial Reserve	(360.8)	(406.2)	(575.5)	(732.8)	(714.5)
Retained income	**998.9**	**3,417.6**	**1,312.9**	**4,641.3**	**2,869.8**
Dividends in respect of financial year	(300.0)	(210.0)	(210.0)	(280.0)	(420.0)
Consolidated Balance Sheet					
Shareholders interest	**8,365.1**	**9,537.5**	**10,058.9**	**12,207.9**	**14,762.0**
Net UPR	1,216.4	1,643.4	2,156.7	2,662.2	3,282.7
Net OCR & IBNR	2,205.6	2,212.3	2,373.6	3,050.0	3,702.7
Life fund and reserves	2,761.2	3,167.4	3,742.8	4,475.7	5,190.2
Interest bearing liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	424.2	661.1	753.9	1,389.5	1,220.4
Total capital & liabilities	**14,972.5**	**17,221.6**	**19,086.0**	**23,785.4**	**28,158.0**
Fixed assets	27.9	86.3	87.2	80.5	112.9
Investments	7,932.1	8,803.7	9,152.6	10,517.3	12,035.8
Cash and equivalent	4,304.3	5,718.9	7,215.0	9,917.7	12,109.8
Other current assets	2,708.2	2,612.8	2,631.2	3,269.8	3,899.5
Total assets	**14,972.5**	**17,221.6**	**19,086.0**	**23,785.4**	**28,158.0**
Consolidated Cash Flow Statement					
Cash available from operating activities	**1,045.8**	**1,609.7**	**1,477.0**	**1,088.2**	**769.9**
Tax paid	(400.7)	(28.3)	(307.8)	(248.9)	(371.5)
Dividends paid	(300.0)	(300.0)	(210.0)	(210.0)	(280.0)
Cash inflow / (outflow) from operating activities	**345.0**	**1,281.4**	**959.2**	**629.3**	**118.4**
Cash inflow / (outflow) from investing activities	**(89.1)**	**(69.8)**	**(44.0)**	**(28.1)**	**(161.2)**
Cash inflow / (outflow) from financing activities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net cash inflow / (outflow)	**256.0**	**1,211.5**	**915.2**	**601.1**	**(42.8)**

SALIENT POINTS OF ACCORDED RATINGS

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

Kenya Reinsurance Corporation Limited 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 rating/s has been disclosed to Kenya Reinsurance Corporation Limited with no contestation of the rating.

The information received from Kenya Reinsurance Corporation Limited and other reliable third parties to accord the credit rating(s) included the 2013 audited annual financial statements (plus four years of comparative numbers), latest Internal and/or external report to management, full year detailed budgeted financial statements for 2014, year to date management accounts to June 2014, the 2014 retrocession cover notes, and other documentation related to the rating exercise.

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

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://GLOBALRATINGS.NET/UNDERSTANDINGRATINGS. IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT HTTP://GLOBALRATINGS.NET/RATINGSINFORMATION. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. THE INFORMATION CONTAINED HEREIN MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED , IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. The ratings were solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR has been compensated for the provision of the ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.