

CREDIT RATING ANNOUNCEMENT

GCR affirms Kenya Reinsurance Corporation Limited's rating of AA(KE); Outlook Stable.

Johannesburg, 31 Aug 2015 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to Kenya Reinsurance Corporation Limited of AA_(KE), with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale claims paying ability rating of BB+ to Kenya Reinsurance Corporation Limited, with the outlook accorded as Stable. The ratings are valid until August 2016.

SUMMARY RATING RATIONALE

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

The reinsurer's risk adjusted capitalisation has been measured at very strong levels, supported by the reinsurer's sizeable balance sheet, catering for the high quantum of underwriting and asset risks. As such, Kenya Re's capacity relative to other Sub-Saharan players is robust. GCR expects capital adequacy to remain within a strong range over the rating horizon, supported by sound capital generation and a risk based capital management strategy in place.

Kenya Re has a large investment portfolio, covering capital and net technical provisions by 1.4x and 1.2x respectively at FYE14. The reinsurer adopts a balanced investment approach, supportive of strong liquidity metrics. In this regard, invested assets include a sizeable portion of tradeable equities (16%) and investment property (36%), which could offer additional liquidity. As such, GCR expects liquidity metrics to remain at strong levels, supported by the reinsurer's investment allocation strategy.

The reinsurer reflects a strong domestic market position, underpinned by compulsory cessions and the 60% shareholding by the Kenyan government. The compulsory cessions have been increased to 20% from 18% previously and extended to 2020, providing Kenya Re with a secure revenue stream and stable domestic position over the rating horizon. Additionally, the reinsurer is an established player across East Africa, supported by strong brand recognition, and increased capacity relative to local players. Going forward, management expects to expand operations across the rest of Africa, with a focus on Sub-Saharan African markets. In this regard, competitive positioning across the foreign portfolio is expected to strengthen, providing the reinsurer with a moderate level of regional market strength.

Earnings capacity has evidenced a favourable trend over the last two years, with the reinsurer returning to underwriting profitability. Going forward, management expects the recent positive trend to continue, premised on the benefits that are expected to be derived from improving scale benefits coupled with enhanced underwriting measures that have been put in place. In GCR's view, the reinsurer's earnings capacity has strengthened relative to previous years, although large event-driven fire losses and continuing attritional losses from the accident account may continue to represent profit risks.

The reinsurer 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, the short term reserves are viewed to be sufficient. The XoL retrocession programme reflects low deductibles relative to capital. In addition, all retrocession placements are with highly 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.

Upward rating movement is constrained by country and industry risk factors. The ratings may be downgraded if the compulsory cessions were cancelled, coupled with limited cover uptake through voluntary cessions to the reinsurer, resulting in a material weakening in the reinsurer's competitive position. In addition, sustained underwriting losses and/or significant changes in the investment policy towards a more aggressive stance, coupled with risk adjusted capitalisation weakening and/ or liquidity metrics deteriorating beyond expectations may result in downward rating movement.

NATIONAL SCALE RATINGS HISTORY

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

Last rating (August 2014)
Claims paying ability: AA_(KE)
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

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

Last rating (August 2014)
Claims paying ability: BB+
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Short Term Insurance Companies, updated July 2015
Criteria for Rating Long Term Insurance Companies, updated July 2015
East Africa Insurance Statistics Bulletins, 2009-2014
Kenya Re rating reports, 2009 - 2014

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

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
Capital Base	The issued capital of a company, plus reserves and retained profits.
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.
Credit Rating Agency	An entity that provides credit rating services.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
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.
Interest	Money paid for the use of money.
Liquidity	The speed at which assets can be converted to cash.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
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")	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
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
Rating Outlook	A rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued.
Securities	Various instruments used in the capital market to raise funds.
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.

For a more detailed glossary of terms/acronyms used as per GCR insurance glossary, please click [here](#)

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was 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 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 ratings have been disclosed to Kenya Reinsurance Corporation Limited with no contestation of the ratings.

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

- Audited financial results to 31 December 2014
- Four years of comparative audited numbers
- Unaudited interim results to 30 June 2015
- Budgeted financial statements for 2015
- The current year retrocession cover notes
- Statutory returns to 31 December 2014, and
- Other related documents.

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.

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