

CREDIT RATING ANNOUNCEMENT

GCR affirms FBC Reinsurance Limited's rating of A-(ZW); Outlook Stable.

Johannesburg, 02 June 2014 -- Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to FBC Reinsurance Limited of A-(ZW); with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale rating assigned to FBC Reinsurance Limited of B; with the outlook accorded as Stable. The rating(s) are valid until 05/2015.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit rating(s) to FBC Reinsurance Limited ("FBC Re") based on the following key criteria:

The rating is positively impacted by FBC Re's well-established position in the domestic market, underpinned by previously demonstrated capital support from FBC Holdings ("FBCH") and linkages with top tier insurers. Moreover, the reinsurer is covered by an explicit parental guarantee, under which FBCH undertakes to settle all legally payable claims to the extent that the reinsurer is unable to meet admitted obligations.

A sizeable 78% of the investment portfolio is invested in cash and equivalents, underpinning sound liquidity metrics. No material change in the investment strategy is expected over the short to medium term. Significant counterparty risk is, however, inherent in the placement of the bulk of cash holdings with two FBCH subsidiaries. Underpinned by sound retained earnings flat risk premiums, the international solvency margin increased to 75% (F12: 59%). Solvency is projected to remain around the 70% level in F14, lending further support to rating.

The positive underwriting trend in recent years serves as a positive rating factor, and is expected to be maintained over the medium term. This solvency trend has been underpinned by enhanced cost efficiencies and a well contained claims experience (the latter supported by conservative underwriting guidelines). The reinsurer's retrocession placements are placed predominately with highly rated entities, with net retention per risk and event considered to be moderate. Earnings diversification is viewed to be limited by the insurer's elevated concentration, with 64% of the risk base relating to fire.

Notwithstanding recent improvements, the highly uncertain socio-political outlook, adverse macroeconomic fundamentals and low industry entry barriers present considerable operational challenges. As the bulk of FBC Re's assets are domiciled in Zimbabwe, the international rating is significantly constrained by sovereign risk. Although the country has no sovereign rating, it has previously defaulted on payments to international financial institutions. Should this deteriorate further, the rating ceiling of the insurance sector may be reviewed.

For a detailed glossary of terms utilised in this announcement please click [here](#)

NATIONAL SCALE RATINGS HISTORY

Initial rating (May/2009)
Claims paying ability: A-(ZW)
Evolving

Last rating (May/2013)
Claims paying ability: A-(ZW)
Outlook: Stable

INTERNATIONAL SCALE RATINGS HISTORY

Initial rating (May/2009)
Claims paying ability: n.a
n.a

Last rating (May/2013)
Claims paying ability: B
Outlook: Stable



Global Credit Rating Co.

Local Expertise • Global Presence

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for Rating Insurance Companies (July 2013)
FBC Reinsurance Limited rating reports, 2009-2013

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SALIENT FEATURES 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.

FBC Reinsurance 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 FBC Reinsurance Limited with no contestation of the rating.

The information received from FBC Reinsurance Limited and other reliable third parties to accord the credit rating(s) included the audited annual financial statements for FYE13 (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements for 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.



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