GCR GLOBAL CREDIT RATING CO.
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FBC Reinsurance Limited

Zimbabwe Reinsurance Analysis **May 2012**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A-$_{(ZW)}$	Stable	05/2013

Financial data:
(Stated in US$'m)

	31/12/10	31/12/11
Total assets	9.4	10.7
Total capital	4.7	5.7
Cash & equiv.	3.7	3.3
GWP	5.9	9.5
U/w result	(1.7)	0.9
NPAT	(1.4)	1.2
Op. cash flow	0.3	(0.2)
Market cap	n.a.	
Market share*	14%	

*Based on aggregate reinsurance GWP for 2011.

Related methodologies/research:

GCR's Criteria For Rating Short Term Insurance and Reinsurance Companies

FBC Reinsurance Limited ("FBC Re") Rating reports, 2009-2011

Rating history:

Initial rating (post dollarisation: 05/2009)
Claims paying ability: A-$_{(ZW)}$
Rating outlook: Evolving

Last rating (05/2011)
Claims paying ability: A-$_{(ZW)}$
Rating outlook: Evolving

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Rating rationale

The rating is based on the following key factors:

- FBC Re's well established position in the domestic market, underpinned by previously demonstrated capital support from 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 strong improvement in the delivery cost ratio supported a return to underwriting profitability in F11. Internal efficiencies and cost containment initiatives are expected to result in sustainable margins in the medium term.
- Strong premium growth saw the international solvency margin fall behind budget at FYE11. Solvency levels in F12 are not expected to change materially from FYE11, with capital underpinned by retained earnings.
- Capitalisation supports the short term business plan, although weak risk management is considered an offsetting factor.
- Counterparties with secure ratings accounted for 90% participation on the retrocession programme.
- Albeit having retreated from F10 highs, liquidity metrics remain well above industry averages and are considered adequate. Nonetheless, significant counterparty risk is inherent in the placement of the bulk of cash with two FBCH subsidiaries.
- FBC Re's book evidences notable concentration, with around 71% of NWP derived from two classes combined.
- Notwithstanding recent improvements, the highly uncertain socio-political outlook, adverse macroeconomic fundamentals and low industry entry barriers present considerable operational challenges.

What could trigger a rating action

Positive movement factors

- In view of the uncertain economic and political environment, an upgrade is deemed unlikely over the medium term.

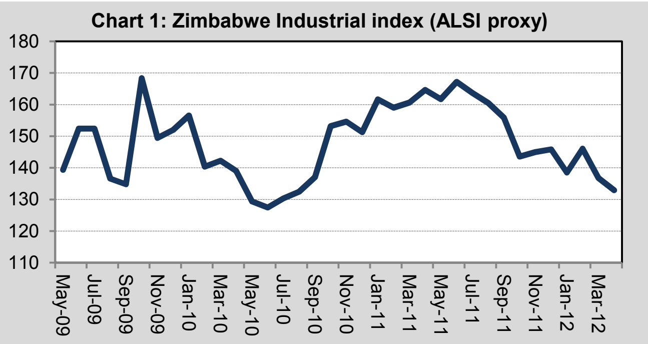
Negative movement factors

- Persistent downward pressure on key solvency and liquidity metrics, and/or sustained underwriting losses. In this regard, a 60%-65% solvency margin, combined with sustained liquidity metrics, is required to maintain the rating.
- The highly uncertain socio-political outlook is likely to exacerbate challenges within the operating climate, constraining capital inflows and economic growth. Should this deteriorate further, the rating ceiling of the insurance sector would likely be reviewed.

Industry overview[1]

The Zimbabwean economy reported real GDP growth of 9.3% in 2011, on the back of robust volumes registered in mining, financial services, distribution and tourism. Agriculture sector growth was behind expectations, at 7.4%, as drought affected six out of ten provinces in 2011. Manufacturing output rose by just 3.5%, as capital remains scarce and utility supply erratic. Although economic growth is projected at a robust 9.4% for 2012, significant uncertainty surrounds constitutional and electoral reform. A reversal of policies that engendered recovery also remains a significant threat, as evidenced by ambiguity on key issues, such as indigenisation.

External debt stood at a high 87% of GDP, deterring meaningful financial support. Structural funding challenges also continue to constrict liquidity and lending. Notably, restricted external lines of credit, the absence of risk-free, liquid treasury instruments, and the Reserve Bank's limited ability to act as a lender of last resort have triggered sporadic cash crises. Consequently, some insurers were unable to timeously liquidate money market investments to service claims in 2011. While banking sector deposits grew by 40% YOY to US$2.3bn by November 2011, nominal rates on deposits were close to zero, and accounts attracted onerous transactional charges. In contrast, lending rates were unsustainably high, ranging between 8%-32% p.a. in 2011. Positively, YOY inflation of 4.9% at December 2011 (2010: 3.2%) compared favourably with regional economies.



Having achieved18-month highs in June 2011, the industrial index plunged to a low of 132.93 during April 2012, on the back of declining business confidence. Little capital has been raised on the ZSE since dollarisation. Volumes traded are very low, and largely limited to active blue chip and growth counters. Overall, the Industrial Index lost 12% for the 12 months ending December 2011. Nonetheless, insurers' relatively lower capital bases and investment portfolios (in comparison to much larger institutional investors), exacerbates their susceptibility to market volatility. The property market remains considerably subdued, as the scarcity of funding has had a dampening effect on asset values. Positively, rentals registered above inflation escalations on the back of rising residential demand.

High levels of unemployment (estimated at over 90%) have seen the rapid expansion of the informal sector, which is largely uninsured. Positively, levels of formal cover by corporates have risen, albeit at a slower than anticipated pace. Infrastructural erosion and low fixed capital formation have constricted CAR/engineering business volumes, while fire premiums have been adversely impacted by the undervaluation of properties. As such, insurance penetration remains low, at 2% of GDP, compared to a high of 6% in 2001. The non life industry is significantly fragmented, with the 2nd tier comprised of 16 insurers, contributing just 21% of GWP in 2011. Key renewals are typically registered in January, June and October, and are aligned to vehicle registration payment periods.[2] 2012 saw the registration of ZEP Re, increasing reinsurance capacity, although competitive pressures will rise, as the reinsurer is targeting both reinsurance and retrocession. Lloyds is also considering entering the market, to take advantage of the sizeable retrocession premiums derived from large mining, aviation and civil risks.

Insurers continue to offer quarterly and semi-annual policies. Although this has lengthened the cash conversion cycle, debtors' days generally remain well within 120 days. The non life market registered a marginal underwriting loss in F11, on the back of elevated claims and pricing pressures (particularly for motor, which is largely retained), as well as unsustainably high management costs. In contrast, reinsurers registered profitability, supported by an improved loss experience and reduced cost pressures. Major insurers have also begun actively managing their reinsurance, adjusting cover to reduce the costs associated with carrying redundant capacity.

Table 1: Key industry data	
Regulatory authority:	**IPEC**
Min. capital req. (non life insurance; reinsurance):	**US$0.3m (US$0.4m)**
# of registered non life insurers (reinsurers):	**26 (9)**
# of registered composite insurers (reinsurers):	**n.a**
Combined market share of top 5 insurers (reinsurers):	**54% (90%)**
Non life insurance (reinsurance) industry GWP 2011:	**US$159m (US$68m)**
Non life ins. penetration (% of GDP):	**2%**
Non life reinsurance GWP growth 2011 (2010):	**36% (32%)**
Retention ratio 2011 (2010):	**68% (64%)**
Earned loss ratio 2011 (2010):	**32% (40%)**
Management expense ratio 2011 (2010):	**30% (46%)**
U/w margin 2011 (2010):	**14% (-12%)**
International solvency margin 2011 (2010):	**123% (173%)**
Largest risk classes 2011 (% of GWP):	**Fire (33%); Accident (21%); Motor (19%)**

The proposed *Insurance Bill* is expected to empower the Insurance and Pension Commission ("IPEC") to carry out the following changes:

- Periodic adjustment of capitalisation requirements;
- Prescription of admissible assets, investments and statutory assets; and
- Enforce regulations related to pricing, corporate governance and disclosure.

[1] Macroeconomic statistics are sourced from the Ministry of Finance and the Reserve Bank of Zimbabwe ("RBZ"), unless otherwise stated.

[2] 3rd party motor insurance is compulsory/regulated, and evidence of insurance cover is required for vehicle registration/renewals.

In the interim, the regulator has rigorously enforced capitalisation requirements, currently set at US$300,000 for insurers and US$400,000 for reinsurers, which is considered very low.

Background and competitive position

Incorporated in 1994, and formerly known as Southern Africa Reinsurance Company ("SARE"), FBC Re in its current guise emanated from a merger with the FBC Bank reinsurance unit in 2004. The non life reinsurer is wholly owned by FBC Holdings Limited ("FBCH"). FBCH's major shareholders at FYE11 included NSSA, with a 22% stake, Tirent Investments (Pvt) Limited (5%) and Cashgrant Investments (Pvt) Limited (5%). The ZSE-listed group had a market capitalisation of US$21.7m at 17 May 2012.

Based on F11 statistics, FBC Re is the 4th largest non life reinsurer by GWP, accounting for 14% of the industry total and 16% of total assets (on a like for like basis). The industry consisted of 8 operational players in F11, of which the 5 largest accounted for 85% of the aggregated asset base. Baobab Re retained pole position in terms of GWP, supported by its larger capital base in comparison to its peers.

Table 2: Peer analysis F11 (US$'m)	Baobab Re	FM Re	ZB Re	FBC Re	Tropical Re	Ind.†
GWP	15.8	15.1	12.5	9.5	7.8	67.9
NWP	13.2	7.3	8.4	7.7	4.9	46.4
NPE	**11.9**	**7.4**	**7.7**	**7.0**	**4.5**	**43.4**
Capital	31.8	3.9	3.0	5.7	1.4	57.0
Total assets	**45.0**	**9.3**	**6.6**	**10.7**	**5.7**	**93.1**
Solvency (%)	241.9	53.7	35.3	74.1	29.2	122.7
Retention (%)	83.5	48.5	67.1	80.6	63.6	68.4
Earned loss ratio (%)	31.1	46.0	39.5	30.6	41.5	31.8
Deliv. cost ratio (%)	70.8	49.7	50.2	56.2	42.0	54.6
U/w margin (%)	(1.8)	4.4	10.3	13.2	16.5	13.6
Claims cover (months)†	2.3	0.8	6.1	18.4	3.2	6.8

†**Source**: IPEC. Technical assets & receivables include the reinsurers' portion.

FBC Re's market position is underpinned by long standing relationships with top tier insurers. Further competitive advantages derive from group synergies. To ensure sustainable profitability, FBC Re's focus is on enhancing internal efficiencies and reining in the cost base. Measures currently include staff downsizing and improving the quality of premium debtors. Coupled with a more cautious investment outlook and adequate retro protection, this is expected to mitigate material capital erosion.

Risk diversification

Domestic cedents accounted for an unchanged 97% of GWP in F11. This compares to initial expectations of an increase in external business volumes to US$1.4m, or 15% of GWP. Management attributed the lack of success to a decision to delay regional expansion in favour of clawing back domestic market share. Facultative business remained dominant, accounting for 76% of F11 gross premiums (F10: 70%). Treaty volumes were driven by increasing surplus cessions from insurers, which represented a higher 77% of treaty GWP (F10: 65%), with the balance derived from working XoL. The reinsurer writes most of its business directly, and as such, intermediaries and other distribution channels accounted for just 11% of GWP (F10: 2%). As with its peers, FBC Re primarily derives premiums from top tier insurers, which contribute 80% of non life industry GWP. Due to fronting arrangements on large corporate and commercial risks, the top five cedents contribution to FBC Re's GWP remained high, at 63% (F10: 75%). Fellow subsidiary Eagle Insurance Company Limited's ("Eagle") respective contribution was relatively low, at 7%, although the increased group stake will see this rise going forward.

Table 3: Business mix (%)	GWP		NWP		Retention	
	F10	F11	F10	F11	F10	F11
Fire	40.9	34.1	31.5	29.3	53.0	69.2
Miscellaneous*	3.9	2.7	5.7	3.4	100.0	100.0
Motor	13.6	11.6	18.8	15.3	94.6	100.0
Engineering	6.0	15.4	6.8	10.3	77.8	54.0
Accident	35.5	36.1	37.2	41.7	71.8	93.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**72.2**	**80.6**

*Comprises transportation and credit.

Fire and accident made almost equal contributions to F11 gross premiums, accounting for a cumulative 70% (F10: 76%). This contrasts previous years, where fire was the primary class, and is largely attributable to rising accident and engineering cessions. Furthermore, although fire retention went up by 16 percentage points to 69% (industry: 66%), accident was primarily retained, thereby dominating NWP. This is in line with industry trends (as the reinsurance market took advantage of the relatively benign accident loss environment). Notwithstanding higher motor cessions from non life insurers, the proportion of GWP derived from this class remained low, at 12% (F10: 14%), and was surpassed by engineering, which registered strong commercial volumes. Overall, FBC Re's retention ratio rose by 8 percentage points to 81%, against a 68% peer average.

Table 4: Claims analysis (%)	Net loss		Earned loss		Δ in E/L
	F10	F11	F10	F11	
Fire	19.1	25.8	0.9	28.9	8.3
Miscellaneous*	1.6	26.1	3.2	71.8	2.6
Motor	75.1	50.7	82.0	45.3	(7.4)
Engineering	6.4	21.9	(8.9)	30.8	4.2
Accident	30.9	15.5	32.9	23.5	(1.5)
Total	**32.1**	**24.2**	**24.4**	**30.6**	**6.2**

*Comprises transportation and credit.

Due to the sizeable net retention on the retrocession programme, all claims fell within FBC Re's net account in F11. The overall loss experience was relatively benign, with the 31% earned loss ratio closely matching the industry average of 32% (F10: 24%). The rise was mainly driven by a normalisation in fire and engineering claims during the year, from insignificant losses previously. Positively, reduced motor claims and an unwinding of reserves saw its respective earned loss ratio improve by 37 percentage points to 45% in F11. In addition, accident claims were relatively well contained. The miscellaneous earned loss ratio climbed significantly, driven by marine claims provisioning, albeit small in the context of total claims.

Table 5: Underwriting profitability	F10			F11		
	Comm.	Tech. result		Comm.	Tech. result	
	%	%	US$'m	%	%	US$'m
Fire	33.8	65.4	1.0	16.7	54.4	1.1
Miscellaneous*	19.4	77.4	0.2	18.3	9.9	0.0
Motor	20.1	(2.0)	(0.0)	37.5	17.2	0.2
Engineering	35.1	73.8	0.2	14.0	55.3	0.4
Accident	37.8	29.3	0.4	37.4	39.1	1.2
Total	**32.2**	**43.4**	**1.8**	**27.9**	**41.5**	**2.9**

*Comprises transportation and credit.

Relatively low fire claims, coupled with a marked reduction in the net commission expense ratio, supported a robust technical margin of 54% (F10: 65%). Accident technical profits trebled to US$1.2m, as strong volumes accentuated the impact of wider margins. The motor book reverted to technical profitability on lower claims, while the remaining classes made little contribution to the technical result. Overall, the reinsurer's technical margin remained largely unchanged, at 42%, and closely approximated a robust industry average of 44% (F10: 34%). Furthermore, following a sharp decline in management costs (to US$2m, fromUS$3.5m), FBC Re achieved a 13% underwriting margin in F11, representing a strong turnaround from a -42% return previously.

Retrocession

Hannover Re and Continental Re lead on the 2012 XoL and surplus treaties respectively, with the balance spread across eleven counterparties. The reinsurer's retrocession contracts cover risks emanating from Sub-Saharan Africa (excluding South Africa). Retrocessionaires with secure ratings accounted for 90% participation on the 2012 programme.

The surplus contract is *facultative obligatory*, enabling FBC Re to decide whether or not to cede certain risks. Participating retrocessionaires are, however, under obligation to assume all ceded risks. The arrangement is not subject to line limitations. Fire and engineering facultative cessions are capped at a higher US$6m (from US$4.5m and a maximum retention of US$1.5m previously), in view of aggressive growth projections for 2012. The XoL treaty buys down the maximum net retention per risk and event on treaty and facultative acceptances to US$300,000 (F10: US$150,000). This equated to 5% of 1Q F12 capital. Inclusive of the CAT layer, XoL capacity quadrupled to US$12m in 2012. Although catastrophe cover serves to mitigate material capital erosion, the reinsurer remains exposed to an accumulation of unrelated corporate risks. The XoL treaty provides for three full reinstatements on the 1st layer, two on the 2nd and 3rd, and one on the final layer.

Table 6: Retrocession-2012 (US$)	Retention	Limit
Surplus		
Fire	6,000,000	6,000,000
Engineering	6,000,000	6,000,000
Misc. accident	3,000,000	3,000,000
Excess of loss (# of layers)		
Fire, CAR/engineering, marine, misc accident, motor, CAT (4)*	300,000	12,000,000

* Motor: treaty & fac max net retention: US$100,000.

As all claims fell within the reinsurer's net retention, recoveries from retrocessionaires were confined to commissions, which equated to a higher 25% of premiums ceded in F11 (F10: 7%). Consequently, the net result fell by 9% to US$1.4m, and corresponded to a reduced 24% of capital (FYE10: 32%).

Table 7: Retrocession (US$)	F10	F11
Premiums ceded	(1,642,351)	(1,846,270)
Claims recovered	-	-
Commission recovered	120,558	469,002
Net transfer	**(1,521,793)**	**(1,377,268)**

Solvency and reserving

During F10, a US$2.2m rights issue, coupled with a US$0.3m revaluation reserve movement, more than offset retained losses of US$1.5m. The reinsurer largely recouped these losses in F11, and notwithstanding a US$0.2m dividend payment, registered a 19% increase in shareholders interest to US$5.7m. However, a marked increase in NWP saw the international solvency margin decrease to 74% (FYE10: 111%). Similarly, the financial base ratio declined to 97%, from 136% previously. Additional shareholder support is provided through a parental guarantee, wherein FBCH has undertaken to settle all legally admissible claims (on an annual basis), should FBC Re be unable to meet admissible reinsurance claims. The agreement may be cancelled, subject to 90 days prior written notice to GCR. Although CAT cover mitigates capital erosion, as it provides protection against sizeable losses, GCR considers the reinsurer's risk management weak, as no formalised modelling tools are utilised to assess this exposure.

Balances due from insurers increased by 45% to US$2.5m, on the back of strong premium growth. As such, premium debtors constituted a higher 23% of the asset base (FYE10: 18%). Adjusted for US$0.2m in debtors outstanding for more than 180 days, the international solvency margin registered at 71%.

Although the UPR equated to a slightly reduced 23% of NWP (F10: 25%), this was well above a 10% industry average. Provisioning is conservative, and is calculated on the 1/365th basis. Outstanding claims equated to 18% of NWP (F10: 22%), compared to a mean of 12% for the industry. Claims provisioning is based on historical claim trends, and is periodically adjusted for policy changes and anticipated cost escalations. Technical liabilities equated to 55% of capital at FYE11 (FYE10: 42%), which saw cash coverage decrease to 1x, from 1.9x previously.

Asset management

Table 8: Investment profile (US$)	FYE10	%	FYE11	%
Associate	302,561	5.8	491,239	10.1
Listed equities	1,226,045	23.3	1,091,762	22.5
Non-cash investments	**1,528,606**	**29.1**	**1,583,001**	**32.6**
Cash & equivalents	3,725,866	70.9	3,272,319	67.4
Total	**5,254,472**	**100.0**	**4,855,320**	**100.0**

The investment portfolio constituted 46% of the larger asset base (FYE10: 56%). Working capital pressures were heightened by a US$1.1m increase in non current receivables (relating to Eagle; discussed later in this section) and a decline in non-trade payables of a similar quantum. This drove a sizeable US$2m absorption, compared to a US$1.6m release reported previously. Including the dividend payment, this resulted in a 12% decline in cash to US$3.3m. Nonetheless, cash and equivalents still accounted for a high 67% of investments (FYE10: 71%), which covered technical liabilities by 1x (F10: 1.9x). Claims cash coverage also decline to 18 months (industry: 7 months), from 44 months in F10.

Currency & counterparty risk

At FYE11, 74% of cash and equivalents were US$ denominated (FYE10: 82%), with the balance held in an offshore GBP account. US$ cash balances were vested with three local banks, down from seven previously. Significant concentration risk is inherent in the placement of 67% of cash and equivalents with two FBCH subsidiaries.

Table 9: Cash matrix-FYE11 (US$ equiv.)	Rating*	US$	GBP	Total	% of total
FBC Bank	A-(ZW)	1,540,081	-	1,540,082	47.1
Barclays Bank^	AA-	-	842,088	842,088	25.7
FBC B.S.	BBB-(ZW)	640,179	-	640,180	19.6
Interfin Bank	-	249,969	-	249,969	7.6
Total	**-**	**2,430,231**	**842,088**	**3,272,319**	**100.0**

*GCR national scale ratings, unless otherwise stated.
^Barclays Bank Plc. London international scale ratings (Fitch, S&P).

Listed equities accounted for an unchanged 23% of investments. Sizeable concentration is in evidence, with four counters accounting for 69% of the portfolio, although the exposure is to liquid blue chip stocks, somewhat mitigating investment risk. Note is taken of the fact that FBC Re paid US$0.9m to assist with FBCH's acquisition of Eagle in F11 (raising its stake to 77%). The transaction was accounted for in the aforementioned increase in non-current receivables. The reinsurer's shareholding in Eagle remained unchanged, at 23% (valued at US$0.5m). According to management, FBC Re will receive consideration for this shareholding, by FYE14, while the aforementioned cash advance was repaid in April F12. Intercompany obligations at FYE11 are shown below. Besides the balances with FBC Bank, none of these amounts accrued interest.

Table 10: Intragroup balances (US$)*	FYE10	FYE11
FBCH	-	927,237
Eagle	-	160,493
FBC Securities	-	21,339
FBC Bank *	(1,705,285)	(564,717)
Total	**(1,705,285)**	**544,352**

*Exclude staff loans, liquid assets and Eagle's insurance obligations. Amounts due to FBC Bank are largely transactional.

Including unrealised gains, the investment yield was ahead of the F09 high, at 14%, on the back of interest income and gains on the disposal of listed equities. Adjusted to exclude unrealised fair value movements, the margin registered at 11% (F10: 5%).

Asset conversion risk

As a range of foreign currencies (Rand, Pula, GBP and Euro) are considered legal tender locally, and a portion of funds is held offshore, this introduces foreign exchange exposure. Positively, the reinsurer's currency mismatch over the review period has been low, with 94% of gross premiums and 84% of claims denominated in US$. Foreign exchange exposure is expected to rise in the medium term, however, due to regional diversification efforts. Note is also taken of the rapidly growing debtors book, although this is largely aligned to robust premium growth. The improved premium collection period of 81 days (FYE10: 121 days), compared favourably to a 95-day average for the industry. Notwithstanding this recovery, semi-annual and quarterly policies will continue to protract the cash conversion cycle until domestic liquidity constraints ease. The top ten cedents accounted for 90% of net premium debtors at 1Q F12, up from 75% at 1Q F12, although this reliance on top tier insurers is typical of the industry. No material concentration in a single insurer is evident.

Financial performance

Financial statements are presented in US$, the functional currency since the adoption of a multiple currency system in 2009. As financials from the years prior to 2009 do not meet the requirements of IAS 21 (The Effects of Changes in Foreign Exchange Rates) and IAS 29 (Financial Reporting in Hyper-inflationary Economies), a 3-year financial synopsis is reflected at the end of this report.

GWP increased by 61% to US$9.5m, outstripping a relatively conservative US$7m target. Albeit slightly lower than projected, retention rose to 81% (F10: 72%), translating to an 80% increase in NWP to US$7.7m. Following a sixfold increase in the UPR transfer, NPE was 30% ahead of forecast, at US$7m.

Table 11: Income statement-F11 (US$)	Actual	Budget	% variance
GWP	**9,503,322**	**7,035,000**	**35.1**
NWP	7,657,052	6,091,500	25.7
NPE	**6,976,215**	**5,364,417**	**30.0**
Claims	(2,137,264)	(1,872,828)	14.1
Net commissions	(1,943,691)	(1,370,917)	41.8
Management expenses	(1,975,841)	(1,654,828)	19.4
Underwriting result	**919,419**	**465,844**	**97.4**
Ratios (%):			
GWP growth	61.0	19.2	
Retention	80.6	86.6	
Earned loss	30.6	34.9	
Delivery cost	56.2	56.4	
U/w margin	13.2	8.7	
Int. solvency	74.1	98.0	
Claims cover (mths)	18.4	36.8	

Notwithstanding the 6 percentage point increase in the earned loss ratio to 31%, claims remained relatively well contained and in line with the peer group average. The net commission expense ratio improved to 28% of NPE (F10: 32%), despite a 45% increase in the net cost to US$1.9m. Furthermore, the management expense ratio declined markedly to 28% (F10: 85%), and was closely aligned to the F11 budget. Previously, management costs were inflated by the sizeable impairment of debtors. Positively, the improved quality of the debtors book has reduced impact of large write-offs. FBC Re's underwriting margin was ahead of expectations, at 13%, and approximated an industry average of 14%. Realised investment income nearly doubled to US$0.6m, while unrealised investment gains were underpinned by a US$0.2m reversal of an impairment of the Eagle investment. Overall, FBC Re registered retained earnings of US$1.1m, contrasting the US$1.5m loss reported in F10. Including unrealised gains, the ROaE of 23% (FYE10: -38%) was marginally ahead of a mean industry return of 21%.

Future prospects

Top line growth of 48% is forecast for F12, supported by increased participation on large corporate and commercial risks. Furthermore, strong linkages with top tier insurers are expected to be complemented by bancassurance partnerships. Notwithstanding a projected increase in the earned loss ratio (to 37%, from 31%), the trade ratio is forecast to ease slightly, due to cost rationalisation. Solvency metrics are not budgeted to change materially, and will be solely supported by retained earnings. Against cash holdings of US$4.1m, more moderate liquidity measures are projected, due to elevated claims. In view of rising competitive pressures, in management's opinion, sustainable growth is expected to derive from consolidation. This is being considered for the medium term, although no decisions have been finalised.

Table 12: Profitability forecasts-F12 (US$)	**1Q F12 Actual**	**F12 Budget**	**% of budget**
GWP	**3,832,797**	**14,100,000**	**27.2**
NWP	3,024,585	11,985,000	25.2
NPE	**2,117,846**	**11,381,761**	**18.6**
Claims	(692,166)	(4,184,763)	16.5
Net commissions	(775,063)	(3,444,690)	22.5
Management expenses	(424,487)	(2,052,731)	20.7
Underwriting result	**226,130**	**1,699,577**	**13.3**
Ratios (%):			
GWP growth	61.3*	48.4	
Retention	78.9	85.0	
Earned loss	32.7	36.8	
Delivery cost	56.6	48.3	
U/w margin	10.7	14.9	
Int. solvency	51.1*	69.1	
Claims cover (mths)	17.6*	8.6	

*Annualised.

GWP increased by an annualised 61% to US$3.8m in 1Q F12. Retention was behind anticipated levels, although it is expected to pick up as the year progresses. As projected, the loss experience has deteriorated somewhat, while delivery costs remained largely unchanged. As such, the underwriting margin was moderately behind full year expectations.

FBC Reinsurance Limited

(US$ except as noted)

Year end : 31 December		2009	2010	2011
Income Statement				
Gross written premium (GWP)		8,412,435	5,902,746	9,503,322
Reinsurance premium		(1,029,152)	(1,642,351)	(1,846,270)
Net written premium (NWP)		**7,383,283**	**4,260,395**	**7,657,052**
(Increase) / Decrease in insurance funds		862,714	(100,993)	(680,837)
Net premiums earned		**8,245,997**	**4,159,402**	**6,976,215**
Claims incurred		(3,214,555)	(1,015,337)	(2,137,264)
Commission		(2,495,532)	(1,339,513)	(1,943,691)
Management & other expenses		(2,192,085)	(3,538,419)	(1,975,841)
Underwriting profit / (loss)		**343,825**	**(1,733,867)**	**919,419**
Realised investment income		35,206	284,943	551,609
Other income		22,135	26,386	52,843
Net profit before tax		**401,166**	**(1,422,538)**	**1,523,871**
Taxation		(49,718)	0	(305,527)
Net profit after tax		**351,448**	**(1,422,538)**	**1,218,344**
Deferred taxation		(329,743)	341,781	(188,714)
Unrealised gains/(losses)		355,758	(317,661)	101,856
Forex gains/(losses)		79,149	(69,233)	(15,519)
Retained income		**456,612**	**(1,467,651)**	**1,115,967**
Prior period adjustment(s)			318,106	0
Dividend in respect of financial year		0	0	(191,294)
Balance Sheet				
Shareholders interest		**3,693,530**	**4,747,318**	**5,671,990**
Net OCR & IBNR		1,235,369	948,123	1,395,207
Insurance funds (Unearned premium reserve)		959,805	1,060,798	1,741,635
Other liabilities		987,462	2,614,193	1,858,670
Total capital & liabilities		**6,876,166**	**9,370,432**	**10,667,502**
Fixed assets		387,139	316,031	383,121
Investments		1,805,235	1,528,606	1,583,001
Cash and short term deposits		1,269,755	3,725,866	3,272,319
Other assets		3,414,037	3,799,929	5,429,061
Total assets		**6,876,166**	**9,370,432**	**10,667,502**
Business risk profile				
GWP spread (%)				
Fire		3,881,729	2,413,627	3,245,127
Miscellaneous		142,346	231,766	258,840
Motor		2,155,682	805,686	1,101,342
Engineering		1,005,224	353,591	1,464,398
Accident		1,227,454	2,098,076	3,433,615
Total		**8,412,435**	**5,902,746**	**9,503,322**
Investments spread				
Investment in associate		648,204	302,561	491,239
Listed equities		1,157,031	1,226,045	1,091,762
Total		**1,805,235**	**1,528,606**	**1,583,001**
Key Ratios				
Solvency / Liquidity				
Shareholders funds / NWP	%	50.0	111.4	74.1
Adjusted international solvency margin*	%	50.0	106.5	70.9
Financial base	%	63.0	136.3	96.8
Insurance funds / NWP	%	13.0	24.9	22.7
Outstanding claims / NWP	%	16.7	22.3	18.2
Claims cash coverage (months)	months	4.7	44.0	18.4
Cash: Technical liabilities	x	0.6	1.9	1.0
Average premium collection period	days	67.6	120.5	80.6
Efficiency / Growth				
GWP Growth	%	n.a	(29.8)	61.0
Premiums reinsured / GWP	%	12.2	27.8	19.4
Earned loss ratio	%	39.0	24.4	30.6
Commissions / NPE	%	30.3	32.2	27.9
Management expenses / NPE	%	26.6	85.1	28.3
Underwriting result / NPE	%	4.2	(41.7)	13.2
Profitability				
Investment yield (excl. unrealised gains/losses)	%	1.1	5.4	11.4
Investment yield (incl. unrealised gains/losses)	%	12.7	(0.6)	13.5
ROaE	%	21.3	(38.1)	23.0
Dividend cover	x	n.a	n.a	6.4

*Excludes debtors in excess of 180 days, and dividends in respect of financial year.