GCR GLOBAL CREDIT RATING CO.
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International Commercial & Engineering Seguros

Mozambique Insurance Analysis **May 2017**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	BBB+$_{(MZ)}$	Stable	April 2018

Financial data:

(Stated in USD'm)

	31/12/15	31/12/16
Total assets	2.8	9.0
Total capital	0.9	1.6
Cash & equiv.	1.0	1.8
GWP	1.5	8.1
U/w result	(1.7)	(0.5)
NPAT	(0.9)	0.0
Op. cash flow	(0.6)	1.0
Market cap.		n.a.
Market share*		5.4%

*Based on total industry short term GWP as at 2016.

Ratings history:

Initial rating (April 2015)
Claims paying ability: BBB+$_{(MZ)}$
Rating outlook: Stable

Last rating (May 2016)
Claims paying ability: BBB+$_{(MZ)}$
Rating outlook: Negative

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2016

Criteria for Rating Newly Established and Start-up Insurance Companies, updated July 2016

International Commercial & Engineering Seguros rating reports, 2015-16

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Summary rating rationale

- International Commercial & Engineering Seguros ("ICE") is a start-up insurer, operating in the Mozambican short term insurance sector since May 2015. The initial business plan centred on writing high value fire and engineering risks that were expected to be generated through increased activity in the oil and gas industry. This was anticipated to provide a high-growth revenue stream which, coupled with a low-frequency loss experience and high commission recovery structure, was projected to sustain a high margin business model. However, the unexpectedly constrained local economic environment over the past two years has hampered the attainment of initial financial projections. In response, ICE has partially adapted its short term strategy, seeking to capture existing market risks as a means of supplementing revenue flow, while an additional USD1m was injected into the business in 1H F16 to cover expenses. Furthermore, initial projections have been revised to cater for delays in achieving operational traction, albeit with management continuing to view medium term prospects as allowing for the realisation of broad financial and operational targets. In this regard, GCR continues to factor in expectations for management's technical skill, market knowledge and demonstrated success in driving start-ups to capture potential medium term growth, while navigating short term market uncertainty. Nevertheless, persistent budget shortfalls, and ongoing economic headwinds, will continue to represent the primary source of rating sensitivity over the short term.
- Liquidity is viewed to be strong, supported by a very conservative investment strategy, with all investment funds being placed in cash and equivalents. Following the USD1m capital injection, the cash balance rose by 80% to USD1.8m at FY16. Accordingly, liquidity metrics registered at sound levels, with cash coverage of average monthly claims and net technical provisions amounting to a high 60 months and 1.2x respectively (FY15: 48 months and 2.4x respectively). Over the medium term, liquidity metrics are expected to trend within a strong to moderately strong range, as potential investments into higher risk assets (a function of regulatory prescribed asset requirements) may serve to dilute the cash portfolio, and soften liquidity ratios. GCR further notes the potential for liquidity exposure to constrained cash flow generation (a function of continued of operational and earnings challenges).
- ICE's competitive position strengthened in FY16, with the insurer's market share increasing to 5% on a GWP basis. (FY15: 0.7%). However, the insurer's market presence remains limited in terms of NWP, given the high degree of reinsurance utilised in the operating model. GCR expects the insurer to gain further market traction over the medium term, given increased market acceptance, translating into business being captured from competitors.
- Earnings capacity is limited, with the lack of premium volume scale inhibiting profit potential. In this regard, large fixed operating costs (FY16: USD1.1m; relative to a net risk base USD1m), resulted in a net underwriting loss of USD0.5m in FY16. The foreign exchange translation gains currently supporting net profitability (and consequently capitalisation) are not viewed to be a stable contributor to medium term profit potential. With minimal investment income returns, premium generation in line with management's projections represents a key determinant of the earnings assessment, with any potential underperformance likely to impact negatively on credit strength going forward.
- Capitalisation is considered to be intermediate, with the low value of capital (in absolute terms) exposing the capital base to budget shortfall risks. The USD1m capital injection received in FY16 supported risk adjusted capital at intermediate levels, providing some capital relief from depressed earnings. In this regard, the international solvency margin lowered to 98% in FY16 (FY15: 298%). Going forward, capitalisation will remain sensitive to the attainment of short-medium term growth and profit projections, with any potential shortfalls in revenue likely to lead to a moderation of capital strength.
- Reinsurance protection is considered integral in the context of ICE's business strategy. In this regard, the moderate credit strength displayed by most reinsurance counterparties serves to somewhat alleviate capital risk. However, the treaty net deductible per risk is considered moderately elevated relative to FY16 capital (at 6.3%).

Factors that could trigger a rating action may include

Positive change: Upward rating movement could arise from sustained earnings performance in line with projections, leading to sound capital generation and maintenance of strong liquidity, and/or risk adjusted capitalisation. Furthermore, a strengthening in the insurer's business profile (by way of increased market share and enhanced earnings diversification) may lead to positive rating movement.

Negative change: The rating is sensitive to potential shortfalls (relative to expectations) in the net risk base, which may constrain profit potential and limit capital build.

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Operating environment

Economic overview

Table 1: Macroeconomic indicators	**2012**	**2013**	**2014**	**2015**	**2016**	**2017e**
GDP growth (annual % Δ)	7.2	7.1	7.4	6.6	3.4	4.5
Inflation (annual average %)	2.1	4.2	2.3	2.4	19.2	19.0
Current acc. bal. (% of GDP)	(44.7)	(42.9)	(38.2)	(39.4)	(38.9)	(34.8)

Source: IMF World Economic Outlook, April 2017.
e: Estimate.

Following strong GDP growth between 2012 and 2014 (three year average: 7%), there was a notable slowdown in economic activity over the succeeding two years. In this regard, GDP growth softened to 6.6% in 2015, and lowered further to 3.4% in 2016. The latter was largely attributed to the disclosure of previously unreported government debt to the value of USD1.4bn in April 2016, which restricted foreign aid and investment flows into the country. Currently, an independent audit of the hidden debts are being conducted, with most international donors awaiting the findings of the report before deciding whether or not to resume further funding to the country. As such, a degree of risk and uncertainty remains in the economy, with the full extent of the fallout from the debt saga yet to be fully assessed.

In the context of the overarching economic environment, rising food prices (which have been aggravated by the onset of a drought towards the latter part of 2015) spurred inflation to elevated levels throughout 2016, with the average annual inflation rate reported at 19.2% (2015: 2.4%). The situation was further accentuated by the marked depreciation of the Metical ("MZN") during the latter half of 2015 through to 2016 (losing approximately 34% of its value against the USD over 2016), which added to inflationary pressure through import pass-through dynamics. As a means to contain inflationary pressure and stabilise the depreciating currency, the Banco de Moçambique ("BM", "the central bank") intervened by selling off foreign reserves and tightening its monetary policy towards the last quarter of 2015. In this regard, after maintaining the standing lending facility rate at 7.5% during much of 2015, aggressive rate increases were passed through in 2016 (particularly towards the second half of the year), which saw the lending rate end the year at 20%. Two further rate increase followed in the beginning of 2017, resulting in the lending rate peaking at 23.25% at March 2017. However, following a 24% increase in the value of the currency against the USD and a stabilisation of inflation rates, the lending rate was recently cut by 50 basis points, and currently stands at 22.75%.

Looking ahead, GDP has been forecast to grow by a slightly higher 4.5% in 2017. There have been some positive signs emanating from the country in more recent times. There has also been some progress on the Rovuma basin gas megaproject, which includes a USD2.8bn deal between ENI and Exxon mobile, which would see the latter acquire a 25% stake in the natural gas project. The deal is expected to add approximately USD350m in tax revenue for the Mozambique government. This notwithstanding, the country continues to be subject to downward risk, given potential further repercussions from the undisclosed debt saga, while a deterioration in the political landscape could dampen investor confidence further.

Corporate profile

Ownership and shareholding structure

ICE is a private start-up company, which is incorporated in Mozambique and registered with the relevant insurance regulatory body. The entity in turn is a wholly owned subsidiary of International and Commercial ("ICE") Insurance Holdings Limited (registered in the Isle of Man), which serves as a holding company for a number of African insurance ventures. ICE Holdings is ultimately owned by two family trusts (namely L&A Family Trust and RJLTrust), linked to entrepreneurs Robert and Andrew Lewis. Despite the vested involvement of these two individuals (manifesting particularly in terms of their extensive technical expertise and business acumen), shareholder support is viewed as a rating neutral factor, given the pipeline of other insurance ventures in initiation/start-up phase.

Corporate governance

At present, the Board of Directors ("BoD") comprises six directors. This includes one independent and one non-executive member as well as four executive directors. At board level, a number of committees have been established (including Audit & Risk, Investment and Human Resources Committees). These committees, as well as the BoD meet quarterly (or on an ad hoc basis as required). Overall, the independence of ICE's BoD is viewed as adequate.

Strategic overview

Premium growth

The attainment of scale, through consistently high premium growth targets remains the key strategic objective for ICE. Success in this regard hinges on the depth of technical knowledge and experience inherent in the management team (in particular market and risk-specific knowledge), which serves as a key competitive advantage for ICE in a skill-deprived insurance market. Paired with its demonstrated track record of successfully driving start-up insurance ventures, this provides a degree of comfort in management's ability to successfully execute the stated objectives over the medium term.

This notwithstanding, since ICE began operations in May 2015, economic challenges have hampered the attainment of initial financial projections, with premium volumes not materialising as expected. Given the high utilisation of reinsurance during the initial book building phase, the net risk base has been limited, and insufficient to absorb fixed operating expenses. This has constrained profit and consequently, limited capital generation.

Nonetheless, ICE has made notable headway in terms of its market presence. This highlights management's capacity to navigating short term market uncertainty, gaining market share amidst tough economic challenges. This also points to greater acceptance in the market, where ICE was able to gain business from larger competitors. In this regard, ICE secured a single large policy to the value of USD9m as at April 2017. The risk is 100% facultatively re-insured by ICE, with low initial commission fees. Management indicated that there is potential for a step up in the commission rates over the medium term, which could alleviate some operational cost pressure going forward. Additionally, with this large risk being placed with ICE (albeit fully reinsured), there is an expectation that this could open up other avenues of business from this client, given that it is a large scale player in the coal industry, which also includes railway construction among others.

Financial reporting

A financial synopsis is reflected at the end of this report. The insurer's 2016 financial statements have been audited by Ernst & Young, with an unqualified opinion issued. The audit did find that the insurer's asset allocation did not comply with regulatory guidelines with respect to assets covering technical provisions. However, it was also noted that the noncompliance was related to asset allocation, as opposed to the adequacy of reserving. Accordingly, the insurer will need to engage the regulator and formulate an adequate plan to comply with regulation. The potential financial impact of the finding is addressed in the asset management section.

To allow for comparability with forecasts provided by management, certain figures obtained from the FY16 audited financial statements have been translated into USD, using a USD/MZN closing and average exchange rate of 71.73 and 62.65 respectively (FY15: 47.03 and 38.54 respectively).

Competitive positioning

Peer analysis

The table below compares ICE's key operating ratios and credit protection metrics with those of its peers, which are viewed to compete for similar risks.

Table 2: Peer group analysis	FY15#			FY16	
	SIM	GA	ICE	GA	ICE
Operating ratios (%)					
GWP market share	17.6	24.5	0.7	21.8	5.4
GWP growth	2.8	(5.9)	n.a.	(2.1)	433.5
Retention	80.1	43.5	20.4	45.4	20.2
Operating margin	46.1	3.5	n.a	(14.6)	(51.9)
Credit protection (%)					
Int. solvency	141.2	74.1	297.5	70.4	98.3
Cash / tech liab. (x)	1.0	2.3	2.4	1.5	1.2
Cash cover (months)	89.9	15.7	48.2	14.8	60.4

#Peer group results have been consolidated.

Over the past two years, industry wide premium growth has been relatively subdued, a function of the overall slowdown in economic activity. Large, established players in the insurance market have registered negligible growth, with market participants competing for a shrinking pool of business. In this regard, ICE enhanced its market presence in FY16, with its total share of market GWP increasing to 5% (FY15: 0.7%). However, ICE's profit attainment over the medium term is largely linked to projected premium attainment, with potential shortfalls giving rise to earnings volatility over the medium term. This is in contrast to the peer group, which are viewed to possess strong credit protection metrics, capable of absorbing a degree of earnings volatility. In the event that year on year results keep pace with forecasts, management is projecting the international solvency margin to closer approximate that of SIM over the medium term. Liquidity metrics are sound across the peer group.

Earnings profile

Distribution channels

The business mix is dominated by the commercial segment (at approximately 100% of GWP in FY16), given the high value risks being targeted. As such, broker utilisation is high, with premiums from this channel representing 74% of total GWP in FY16 (FY15: 67%). In turn, the underlying business strategy gives rise to high broker and client concentrations. More specifically, the five largest brokers accounted for around 72% of GWP in FY16 (single largest: 38%), whilst the single largest client represented a high 31% of gross premiums (three largest accounts combined: 42%).

Premiums sourced directly equated to 26% of GWP, with the bulk of this business stemming from various participation on international programs and partnerships with large players in the market.

Earnings profile

Table 3: Premium growth (USD'000)	FY16		FY17	
	Actual	Budget	Actual YTD*	Budget
GWP	8,060.7	10,000.0	11,809.0	19,875.0
NWP	1,626.7	3,375.0	469.0	2,163.0
NPE	**1,009.5**	**1,761.1**	**255.0**	**2,488.0**
Key ratios (%)				
GWP growth**	433.5	561.9	339.5	146.6
Retention	20.2	33.8	4.0	10.9

*Four months to April 2017.
**Annualised for year to date results.

Gross premiums advanced in excess of 4x to USD8m in FY16, albeit registering below the budgeted USD10m. Given the strategic focus on core lines such as fire and engineering, premium growth attainment is largely linked to the state of the underlying oil and gas and construction sectors. This exposes the revenue stream to the overall economic sentiment, which was largely negative during the course of FY16.

GWP is budgeted at USD19.9m for FY17. The insurer has a strong pipeline of business supporting the projections. It is also noted that an upturn in economic activity (particularly in the oil and gas sector) may benefit the insurer's revenue streams, given ICE's close ties to large industry players and brokers in the sector. However, should there be any further unforeseen shocks to the economy, premium levels may remain subdued, limiting profit potential and negatively impact key credit protection metrics.

Product diversification

Table 4: Premium by class (%)	GWP		NWP		Retention	
	FY15	FY16	FY15	FY16	FY15	FY16
Fire	14.5	48.6	(3.9)	12.8	(5.4)	5.3
Transport	18.1	4.1	45.8	12.9	51.5	63.5
Motor	8.6	8.9	42.3	44.2	100.0	100.0
Accident*	5.5	5.5	26.7	18.0	100.0	65.8
Liability	6.9	9.9	0.4	3.3	1.2	6.8
Miscellaneous**	46.3	23.0	(11.4)	8.9	(5.0)	7.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**20.4**	**20.2**

*Includes workman's compensation.
**Includes engineering.

In view of the insurer's underlying business focus, fire and engineering dominated the product mix, accounting for a combined 72% of gross premiums in FY16 (FY15: 61%). Accordingly, of the MZN447m increase in gross premiums for the year, the bulk was achieved from fire (MZN237m), while engineering added a further MZN89m in premiums in FY16. The remainder of the product mix was comprised of liability (at 10%), motor (at 9%), accident (at 6%) and transport (at 4%). Management considers these products to be ancillary lines, and written on an accommodative basis to supplement the core portfolio (as in the case of motor).

Earnings capacity

Claims experience

Claims remain well contained, with the claims ratio reported at 36% in FY16. The bulk of claims originated from fire business, which was a function of one large gross claim to the value of USD1m reported in the year. However, the net value paid was limited to USD65,277. No material claims were reported on the remaining lines of business.

The claims ratio is expected to rise to 42% in FY17. Management is expecting the combined impact of rates pressure and increased cost of vehicle repairs to result in higher motor claims in FY17. To date, management indicated that two large motor claims have been incurred, amounting to USD195,796.

Operating expenses

Total operating expenses registered in line with budget at USD1.2m in FY16 (BY16: USD1.2m). However, with a shortfall of USD0.7m on the net earned premium line (relative to budget), the operating expense ratio remained elevated at 115%. Further to this, the lower than anticipated premiums on fire and engineering risks maintained the insurer's net commission expense position (contrary to the budgeted net commission recovery). In order to sustain the operating base, the realisation of cost efficiencies through scale benefits is viewed to be a key rating consideration.

Table 5: Financial performance (USD'000)	FY16		FY17	
	Actual	Budget	Actual YTD*	Budget
GWP	8,060.7	10,000.0	11,809.0	19,875.0
NWP	1,626.7	3,375.0	469.0	2,163.0
NPE	**1,009.5**	**1,761.1**	**255.0**	**2,488.0**
Claims	(363.5)	(523.9)	(345.0)	(1,046.0)
Commission	(9.8)	211.6	(7.0)	843.0
Operating expenses	(1,161.4)	(1,372.4)	(429.0)	(1,244.0)
U/w result	**(525.2)**	**76.4**	**(526.0)**	**1,041.0**
Investment income	1.1	7.7	8.0	26.0
Other income/(exp.)	574.0	0.0	245.0	625.0
Tax	(13.1)	0.0	0.0	(278.0)
NPAT	**36.8**	**84.1**	**(273.0)**	**1,471.0**
Total capital	*1,599.6*	*2,311.1*	*1,580.0*	*3,214.0*
Key ratios (%)				
GWP growth**	433.5	561.9	339.5	146.6
Retention	20.2	33.8	4.0	10.9
Earned loss ratio	36.0	29.7	135.3	42.0
Commission ratio	1.0	(12.0)	(2.7)	(33.9)
Operating exp. ratio	115.0	77.9	168.2	50.0
U/w margin	(52.0)	4.3	(206.3)	41.8
Op. margin	(51.9)	4.8	(203.1)	42.9

*Four months to April 2017.
**Annualised for year to date results.

Profitability

ICE reported an underwriting deficit of USD0.5m in FY16 (FY15: -USD1.7m). The result was notably below the budgeted surplus of USD76,400. The underwriting result continued to be weighed down by lower than expected premium growth, and a relatively fixed operating cost base. With the majority of investments held in USD, ICE benefited from the depreciation in the Metical during FY16, recording a USD0.6m unrealised net exchange gain. As a result, NPAT amounted to USD36,800 in FY16 (FY15: -USD0.9m). Management have budgeted for a turnaround in operating results for FY17. However, this will depend largely on the manifestation of targeted premiums, and as such, a degree of execution risk is inherent in short term profit projections.

Reinsurance

With the operational focus centering on the pursuit of high value commercial risks, reinsurance support is considered paramount in providing underwriting capacity, maintaining shareholder risk appetite within tolerance levels and thus successfully executing ICE's business strategy

Reinsurance structure

No material changes have been made on the 2017 reinsurance programme, which entails one respective surplus, quota share and XoL facility, covering all risks underwritten (barring motor 3rd party liability, which is to be fully retained for the insurer's net account). More specifically, the fire and engineering surplus treaty provides capacity to a maximum value of USD9m (subject to a net retention of USD1m). A corresponding 50% quota share facility reduces this exposure further (to USD0.5m). The ultimate net buy-down is facilitated through a broad-scope XOL treaty, limiting the insurer's net exposure per risk and event to USD0.1m. Added protection is afforded by means of multiple reinstatements (the first on both the 1st and 2nd layer are offered at no cost to ICE). As a percentage of FYE16 capital, the maximum XoL net retention equated to 6.3%, a level which on a per risk basis is considered moderately elevated by regional norms.

Table 6: Reinsurance treaties 2017 (USD'm)	FY16		FY17	
	Retention	Limit	Retention	Limit
Surplus (# of lines)				
Fire & engineering (9)	1	9	1	9
Quota share				
Fire, eng. & liability	50%	0.5	50%	0.5
XoL (# of layers)				
Fire, eng., liab, motor, marine, misc. acc- CAT (4)	0.1	10	0.1	10

Given the strong representation of high value fire and engineering risks, facultative reinsurance is extensively utilised, accounting for approximately 94% of reinsurance cessions in 2016. Management has, however, confirmed that facultative reinsurance is to be used solely for capacity building, with no risks in excess of treaty limits to be retained for ICE's account.

Reinsurance counterparties

Participating reinsurance counterparties are qualitatively sound, comprising highly rated international reinsurers and affiliate reinsurer One Re. More specifically, Swiss Re leads the programme (accounting for a 30% share across all treaties), followed by Africa Re (25%), One Re (25%), ZEP Re (10%), Namibia Re (6%) and Moz Re (4%).

Asset management

Investment strategy

ICE employs a very conservative investment strategy, with invested assets held exclusively in cash and short term deposits. Note is taken of the audit finding pertaining to the insufficiency of ICE's current asset allocation to meet technical provisions in accordance with regulatory asset allocation requirements. In this regard, the reserve insufficiency refers to allocation of assets, rather than inadequate reserving on the part of the insurer. However, going forward, ICE may potentially have to reallocate a portion of its cash portfolio into non cash instruments (such as government bonds, investment property and equities) in order to comply with regulatory statute. In this respect, management have reiterated its intention to maintain a high weighting in cash, albeit, some dilution may be precipitated.

Liquidity

Liquidity is viewed to be strong, supported by a very conservative investment strategy, with all investment funds being placed in cash and equivalents. Following the USD1m capital injection, the cash balance rose by 80% to USD1.8m at FY16. Accordingly, liquidity metrics registered at sound levels, with cash coverage of average monthly claims and net technical provisions amounting to a high 60 months and 1.2x respectively (FY15: 48 months and 2.4x respectively). Over the medium term, liquidity metrics are expected to trend within a strong to moderately strong range, as potential investments into higher risk assets (a function of regulatory prescribed asset requirements) may serve to dilute the cash portfolio, and soften liquidity ratios. GCR further notes the potential for liquidity exposure to constrained cash flow generation (a function of continued of operational and earnings challenges).

Conversion risk

Given the focus on multinational insurance risks (with the associated policies typically underwritten in USD), cash reserves are predominantly held in USD, with domestic currency reserves originating from a limited number of local commercial risks. With most claims correspondingly settled in USD, operational currency risk is naturally mitigated. As such, conversion risk is limited to the translation of USD denominated assets and liabilities into local currency balances for regulatory purposes.

Premium receivables

Total premiums receivable amounted to MZN285m at FY16, of which, MZN71m pertained to brokers. Management indicated that all receivables fall within the 180 day bucket. This notwithstanding, outstanding premiums are viewed to be sizeable, relative to the capital base. GCR also notes industry wide challenges in premium collections arising in FY16, the continuation of which, may result in an ageing debtors book. Although much of these premiums are ultimately paid to the reinsurers and ICE is currently running a correspondingly large reinsurance payable balance, a deterioration in the debtors profile may impact negatively on adjusted capitalisation going forward.

Capitalisation

Capital generation

Table 7: Capitalisation (USD'000)	FY16		FY17	
	Actual	Budget	Actual YTD*	Budget
NPAT	**36.8**	**84.1**	**(27.3)**	**1,471.0**
Total capital	*1,599.6*	*2,311.1*	*1,580.0*	*3,214.0*
Key ratios (%)				
Solvency**	98.3	68.5	112.3	148.6

*Based April 2017 management accounts.
**Annualised for YTD.

Capital generation has been limited, given the net loss of USD0.9m in ICE's first year of operation, and the consequent minimal USD36,800 profit generated in FY16. The insurer's underperformance relative to budget resulted in a significant portion of initial capital being eroded. Consequently, ICE received a USD1m capital injection in FY16 that saw total capital increase to USD1.6m, from USD0.9m previously. Stabilisation of the capital base is largely dependent upon the attainment of critical mass on a net risk basis in order to support underwriting profit. This is particularly relevant, given ICE's conservative investment strategy, and minimal earnings uplift received from investment income.

Capital adequacy

Capitalisation is considered to be intermediate, with the low value of capital (in absolute terms) exposing the capital base to budget shortfall risks. The USD1m capital injection received in FY16 supported risk adjusted capital at intermediate levels, providing some capital relief from depressed earnings. In this regard, the international solvency margin lowered to 98% in FY16 (FY15: 298%). Going forward, capitalisation will remain sensitive to the attainment of short-medium term growth and profit projections, with any potential shortfalls in revenue likely to lead to a moderation of capital strength. Shareholders have indicated their willingness to support the company with additional capital should the need arise.

Reserving

In terms of reserving, local regulations stipulate a minimum IBNR provision at 3.5% of the current year's net premiums earned. Reserves for outstanding claims are raised on an ad hoc basis (premised on historic claims patterns and management's experience). As a percentage of NWP, the outstanding claims and unearned premium reserve equated to 49% and 43% respectively in FY16. Overall, GCR views the insurer's proposed reserving balances to be adequate in the context of the business mix to be pursued.

International Commercial & Engineering Seguros

(USD in millions except as noted)

Year ended : 31 December		2015	2016	2016B	2017F
Income Statement					
Gross written premium (GWP)		1.5	8.1	10.0	19.9
Reinsurance cession		(1.2)	(6.4)	(6.6)	(17.7)
Net written premium (NWP)		**0.3**	**1.6**	**3.4**	**2.2**
Net UPR movement		(0.3)	(0.6)	(1.6)	0.3
Net earned premiums (NEP)		**(0.0)**	**1.0**	**1.8**	**2.5**
Net claims incurred		(0.3)	(0.4)	(0.5)	(1.0)
Net commission expenses		(0.2)	(0.0)	0.2	0.8
Operating expenses		(1.3)	(1.2)	(1.4)	(1.2)
Underwriting result		**(1.7)**	**(0.5)**	**0.1**	**1.0**
Investment income		0.1	0.0	0.0	0.0
Other income / (expenses)		0.7	0.6	0.0	0.1
Unrealised gains / (losses)		0.0	0.0	0.0	0.6
Taxation		0.0	(0.0)	0.0	(0.3)
Net income after tax		**(0.9)**	**0.0**	**0.1**	**1.5**
Other comprehensive income		0.0	0.0	0.0	0.0
Total comprehensive income		**(0.9)**	**0.3**	**0.1**	**1.5**
Dividends		0.0	0.0	0.0	0.0
Balance Sheet					
Total capital		**0.9**	**1.6**	**2.3**	**3.2**
Net UPR		0.3	0.7	1.5	n.a.
Net OCR & IBNR		0.2	0.8	0.9	n.a.
Other liabilities		1.4	5.9	1.2	n.a.
Total capital & liabilities		**2.8**	**9.0**	**5.9**	**n.a.**
Fixed assets		0.1	0.1	0.1	n.a.
Investments		0.0	0.0	0.0	n.a.
Cash and equivalents		1.0	1.8	4.3	3.4
Other current assets		1.6	7.0	1.5	n.a.
Total assets		**2.8**	**9.0**	**5.9**	**n.a.**
Cash Flow Statement					
Cash generated by operations		(0.3)	(1.0)	n.a.	n.a.
Cash flow from investment income		0.0	0.0	n.a.	n.a.
Working capital decrease / (increase)		(0.2)	2.1	n.a.	n.a.
Tax paid		0.0	0.0	n.a.	n.a.
Cash available from operating activities		**(0.6)**	**1.0**	**n.a.**	**n.a.**
Cash flow from investing activities		**(0.6)**	**(1.0)**	**n.a.**	**n.a.**
Cash flow from financing activities		**2.1**	**1.1**	**n.a.**	**n.a.**
Net cash inflow / (outflow)		**0.9**	**1.1**	**n.a.**	**n.a.**
Key Ratios					
Solvency					
International solvency margin	%	297.5	98.3	68.5	148.6
Liquidity					
Claims cash coverage	mth	48.2	60.4	98.5	38.9
Cash / Technical liabilities	x	2.4	1.2	1.8	n.a
Underwriting profitability					
GWP growth rate	%	n.a.	433.5	561.9	146.6
Premium retention rate	%	20.4	20.2	33.8	10.9
Net incurred loss ratio*	%	17.0	36.0	29.7	42.0
Net commission ratio*	%	10.4	1.0	(12.0)	(33.9)
Operating expense ratio*	%	85.1	115.0	77.9	50.0
Total expense ratio	%	95.5	116.0	65.9	16.1
Underwriting margin**	%	(556.4)	(52.0)	4.3	41.8
Combined ratio	%	656.4	152.0	95.7	58.2
Net profitability					
Operating margin	%	(515.7)	(51.9)	4.8	42.9
Investment yield	%	12.2	0.1	0.0	n.a.
ROaE	%	(102.0)	2.9	0.4	n.a.
Dividend cover	x	n.a.	n.a	n.a.	n.a.
Reserving					
Net UPR / NWP	%	83.4	42.9	43.9	n.a.
Net OCR & IBNR / NWP	%	53.7	49.2	28.1	n.a.

*Gross premiums are used in the denominator for 2015 results.
**Net written premium used in denominator for 2015 results.

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

Accident	An unplanned event, unexpected and undesigned, which occurs suddenly and at a definite place.
Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Audited Financial Statements	Financial statements that bear the report of independent auditors (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bourse	French term for stock exchange.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Cede	To transfer all or part of a risk written by an insurer (the cedant or primary company) to a reinsurer.
Cession	Amount of the insurance ceded to a reinsurer by the original insuring company (cedant) in a reinsurance transaction.
Claim	A request for payment of a loss, which may come under the terms of an insurance contract.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Compulsory Insurance	Any form of insurance, which is required by law.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Coverage	The scope of the protection provided under a contract of insurance.
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.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
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.
Earned Loss Ratio	Measures the proportion of claims in the net premiums earned.
Exchange Rate	The value of one country's currency expressed in terms of another.
Execution Risk	The risk that a company's business plans will not be successful when they are put into action.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
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.
Facultative	Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the "faculty" to accept or reject each risk offered.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Forecast	A calculation or estimate of future financial events.
Fronting	The act of providing claims or administrative services by a primary insurer to a secondary insurer or reinsurer, with no risk retention.
Incurred Claims	The total amount of paid claims and loss reserves associated with a particular time period, usually a policy year.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
International Solvency Margin	Measures the ability to cover current year's written premiums using shareholder's funds.
Interest	Money paid for the use of money.
Investment Income	The income generated by a company's portfolio of investments.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Layer	A horizontal segment of the liability insured, e.g., the second R100,000 of a R500,000 liability is the first layer if the cedant retains R100,000 but a higher layer if it retains a lesser amount.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.

Liquidity	The speed at which assets can be converted to cash. The ability of an insurer to convert its assets into cash to pay claims if necessary. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Net Loss	The amount of loss sustained by an insurer after giving effect to all applicable reinsurance, salvage, and subrogation recoveries.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Net Premiums Earned	That portion of a policy's premium that applies to the expired portion of the policy, net of reinsurance premiums.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Operating Margin	Measures the efficiency of profit generation from investments and underwriting.
Operating Result	The sum of underwriting result and investment income.
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.
Political Risk	The risk associated with investing and operating in a country where political changes may have a negative impact on earnings or returns.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
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.
Quota Share	The basic form of participating treaty whereby the reinsurer accepts a stated percentage of each and every risk within a defined category of business on a pro rata basis. Participation in each risk is fixed and certain.
Rating Horizon	The rating outlook period
Reinstatement	The resumption of coverage under a policy, which has lapsed.
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. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Statutory	Required by or having to do with law or statute.
Surplus Treaty	A type of reinsurance under which bands of cover known as lines are granted above a given retention which is referred to as the cedant's line. Each line is of equivalent size and the capacity of the treaty is expressed as a multiple of the cedant's line. The reinsurer receives an equivalent proportion of the full risk premium. A surplus treaty is a form of proportional reinsurance.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
Underwriting Result	The profit or loss that an insurer derives from providing insurance or reinsurance coverage, exclusive of investment income and other income.
Unearned Premium Reserve	The amount shown in the insurance company's balance sheet which represents the approximate total of the premiums which have not yet been earned as of a specific point in time. Also known as insurance funds.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

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; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

International Commercial & Engineering Seguros 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 has been disclosed to International Commercial & Engineering Seguros with no contestation of the rating.

The information received from International Commercial & Engineering Seguros and other reliable third parties to accord the credit rating included:

- The audited financial statements to 31 December 2016
- Two years of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2017
- Unaudited interim results to 30 April 2017
- Other relevant documents

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