GCR GLOBAL CREDIT RATING CO.
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Centriq Insurance Company Limited

South Africa Insurance Analysis **June 2016**

Rating class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	AA-(ZA)	Stable	June 2017

Financial data:

(USD'm comparative)

	31/12/14	31/12/15
R/USD (avg.)	10.84	12.77
R/USD (close)	11.61	15.54
Total assets	279.5	234.4
Total capital	17.5	12.4
Cash & equiv.	68.7	49.9
GWP	162.0	159.1
U/w result	0.8	1.1
NPAT	4.0	3.1
Op. cash flow	23.9	31.4
Market cap		n.a.
Market share*		14.6%

* Based on FSB statistics relating to cell captive GWP for the 2015 calendar year.

Rating history:

Initial Rating (March 2006)
Claims paying ability: A(ZA)
Rating outlook: Stable

Last Rating (June 2015)
Claims paying ability: AA-(ZA)
Rating outlook: Stable

Rating methodologies/research:

Criteria for Rating Short Term Insurance Companies, updated July 2015

Criteria for Rating Cell Captive Insurance Companies, updated July 2015

Centriq rating reports, 2007-2015

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Summary rating rationale

- Centriq Insurance Company Limited's ("Centriq") rating is supported by the insurer's strong standalone credit profile, coupled with support derived from its 100% shareholder, Santam Limited ("Santam", "the group"). In this regard, GCR considers Centriq to be strategically important to the Santam group, given the parent's strategic focus on growing market share in the specialist lines segment, as well as its material participation on the reinsurance programme. This is reinforced by the risk management oversight provided by the shareholder, with group enterprise risk management ("ERM") policies having been incorporated into the company's management and reporting functions.
- Centriq continues to hold a material share of the cell captive market, with competitive positioning supported by development of systems and processes. Furthermore, the specialised nature of the business model is relatively difficult to replicate from start up.
- Risk adjusted capitalisation is expected to be maintained at sufficient levels to support the rating, and is complemented by the additional financial flexibility afforded by a draw down facility from Santam. Furthermore, the successful containment of cells' solvency shortfalls over the past three years enhances the insurer's credit strength and is favourably viewed from a rating perspective.
- On a normalised statutory basis, Centriq's average underwriting margin continues to compare favourably with the typical insurers. Furthermore, GCR expects the insurer to continue to achieve robust net profitability, given the large portion of fee based earnings.
- Centriq has maintained a low risk balance sheet, while consolidated liquidity levels are expected to remain sound, underpinned by the company's conservative investment policy.
- Cognisance is taken of the inherent exposure to volume volatility in the cell captive environment, given the portfolio nature of the arrangements and attrition associated with maturing books of business. Furthermore, possible regulatory changes could impact on the company's strategic direction over the medium term.

Factors that could trigger a rating action may include

Positive change: A rating upgrade could be supported by a strengthening in competitive positioning (supported by growth into profitable business lines over the medium term) and enhanced risk adjusted capitalisation.

Negative change: A sustained weakening in operating performance that leads to erosion of promoter solvency, with a simultaneous reduction in shareholder capital support, could result in negative rating action. This could also be triggered by a weakening in asset quality or liquidity levels.

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Corporate profile

Centriq is a licensed short term cell captive insurance company that was established in 2004. The insurer is wholly owned by Centriq Insurance Holdings Limited, which is a 100% owned subsidiary of Santam. As at June 2016, Santam had a market capitalisation of R25.6bn, and currently carries a $AAA_{(ZA)}$ GCR credit rating.

GCR considers Centriq to be strategically important to the Santam group, given the parent's strategic focus on growing market share in the specialist lines segment, as well as its material participation on the reinsurance programme. This is reinforced by the risk management oversight provided by the shareholder, with group ERM policies having become entrenched in the company's management and reporting functions. Centriq's ROaE has averaged 21% over the review period, compared to Santam's benchmark return of between 20% and 25% for the Centriq group. Furthermore, note is taken of the demonstrated capital support provided by Santam in the form of a R50m contingent capital facility. In terms of the agreement, the minimum withdrawal is R5m at a time and an annual 0.5% facility fee is payable on the facility net of all capital withdrawals (if applicable).

Corporate governance

Centriq's corporate governance framework is aligned with that of the Santam group policy, and the risk management function is coordinated by the Group Compliance & Risk Officer, who works closely with Santam to ensure that sound principles are applied. ERM and Corporate governance principles are based on the King III Code of Corporate Practices, as well as governance, risk management and internal control regulatory requirements, including Board Notice 158 of 2014.

The board of directors comprises three executive and five non-executive directors. The majority of the non-executive directors are executives in the Santam/Sanlam group. Santam's CEO is the Chairman of the board. Santam's audit committee carries out the duties of an audit committee for Centriq. Board Committees are in place for Risk & Financial Review, Human Resources and Investments. The insurer's Risk and Financial Review Committee oversees the financial reporting, internal and external audit, and risk management functions, and assists the Santam Audit Committee.

Strategic overview

The insurer underwrites a diverse portfolio of insurance risks spanning the specialist sub segments and more commoditised commercial and personal lines. The underwriting of traditional insurance risks is achieved through an Underwriting Management Agency ("UMA") and affinity partnership model, which typically involves a cell captive structure. Alternative risk financing solutions are mostly provided through contingency policies, and in some instances a fully capitalised cell captive solution.

Competitive positioning

Table 1 compares Centriq's key performance measures with those of Guardrisk, which is considered to be a close competitor in the cell captive market.

Table 1: Peer comparison FY15	Centriq	Guardrisk*
GWP (% of cell captive)	14.6	58.4
NWP (% of cell captive)	14.5	63.0
Assets (% of cell captive)	15.9	30.7
NPAT (R'm)	39.4	97.2
Net surplus assets (R'm)	1,020.5	2,420.1
Key ratios		
GWP growth (%)	12.2	32.1
Statutory solvency margin (%)	61.0	33.4
Statutory CAR cover – Interim (x)	2.1	1.7
Claims cash cover (months)	31.6	26.1

Source: ST returns.
*Year ended March 2015.

Growth and market share

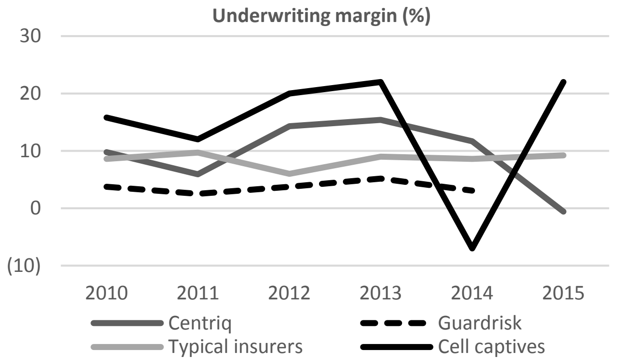
Following relatively static levels in earlier years, Centriq's statutory GWP grew by a robust 12% to R2.3bn in FY15, supported in part by new UMA and risk finance arrangements. This nevertheless lagged the 22% average growth achieved by the cell captive market as a whole, which led to a marginal softening in the insurer's segmental market share, to 15% from 16% in FY14. Notwithstanding the contraction, Centriq continues to hold a material share of the cell captive market, with competitive positioning supported by its systems and processes and the specialised nature of the business model, which is relatively difficult to replicate from start up.

Centriq is budgeting for an 11% increase in revenue in FY16, as relatively new UMA arrangements gain traction. In particular, one new commercial and personal lines agency is expected to contribute around R200m in annual premiums over the next twelve to eighteen months. Centriq has also identified opportunities for further growth in the risk finance space.

Cognisance is taken of the inherent exposure to volume volatility in the cell captive environment, given the portfolio nature of the arrangements and attrition associated with maturing books of business. Furthermore, possible regulatory changes could impact on the company's strategic direction over the medium term. The insurer's focus nevertheless remains on profit generation rather than top line growth.

Profitability

On a statutory return ("ST") basis, Centriq reported a small underwriting loss in FY15. This was attributed to a once off change in the accounting treatment of policyholder bonuses, which were accrued to be part of the unearned premium provision, where previously they were offset against investment income. Excluding the reallocation of the accrual, the insurer's five year average statutory underwriting profit margin amounted to 12%, which was in line with the average for Guardrisk and exceeded the typical insurance aggregate of around 9%. GCR expects the insurer's medium term underwriting profitability to be sustained at fairly competitive levels, given the relatively large contribution of niche sub segments within Centriq's main insurance lines. With regard to the more commoditised commercial and personal lines portfolios, the insurer is considering consolidating some of the smaller premium generators to enhance scale and profitability. This could further enhance profit strength over the medium term.



Note: Guardrisk's figures are allocated to the preceding calendar year.
Source: ST returns.

Earnings diversification

Product distribution
Both gross and net premiums are relatively evenly spread between the UMA and risk finance divisions, with affinity also contributing a fairly material proportion of revenue. Growth in new business resulted in reduced client concentration, with the three largest clients accounting for between 8% and 9% of total GWP, and the five largest representing a combined 36% (FY14: 50%).

Table 2: Divisions (%)	**GWP**		**NWP**	
	FY14	**FY15**	**FY14**	**FY15**
UMA	49.2	43.0	47.2	51.6
Risk finance	40.4	48.2	44.6	42.7
Affinity	10.4	8.8	8.2	5.7

Source: Management accounts, statutory accounting method.

Statutory premium distribution

Table 3: Class (%)	**GWP**		**NWP**		**Retention**	
	FY14	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**
Property	13.1	18.0	18.3	22.0	119.3	89.4
Transport	6.4	4.6	3.5	1.3	46.0	20.0
Motor	48.2	43.8	51.1	44.5	90.4	74.4
Accident	13.9	14.9	15.9	14.9	97.7	73.3
Guarantee	1.0	2.0	(0.4)	1.4	(34.9)	49.5
Liability	6.5	3.6	6.1	3.2	79.0	66.2
Engineering	0.8	1.4	0.9	1.8	92.3	92.9
Miscellaneous	10.0	11.7	4.7	10.9	40.0	68.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**85.4**	**73.2**

Source: ST returns.

In terms of statutory lines of business, the portfolio is well diversified on a gross and net basis, with four classes contributing material premium volumes. Product risk is fairly limited, with the majority of business comprising motor, accident and property related exposures. Following a reduction in risk taking on certain arrangements in FY15, the retention ratio lowered to 73% from 85% in FY14.

Earnings capacity

GCR's analysis of financial performance looks at the feed through of underwriting profitability to Centriq at a promoter level. This information is largely derived from management accounts, given the distortions that arise from IFRS adjustments (where third party cell owners are treated as reinsurers, given their responsibility for the solvency of the cell captive). A summary of IFRS performance is included at the back of this report. The FY15 financial statements were audited by PWC and received an unqualified opinion.

Underwriting performance
Centriq's exposure to underwriting risk is limited to its participation on third party UMA business through reinsurance inward or pure risk assumption at the promoter level.

Total NWP from risk assumption decreased by 17% to R352m in FY15, primarily as a result of a reduction in Centriq's participation on one UMA portfolio's reinsurance programme. The five largest UMAs together contributed a combined R7m underwriting profit in FY15, compared to a R2m loss in the prior year. This followed a strengthening in performance of one UMA, which was attributed to discontinuation of more competitive lines of business. Furthermore, another large UMA reverted to underwriting profitability in FY15, with the prior year having been impacted by the feed through of catastrophe claims. Overall underwriting profitability was further bolstered by the smaller premium contributors, which generated a total profit of R18m (FY14: R11m). Accordingly, the overall underwriting profit accruing to Centriq rose to R25m from R9m in FY14.

Net profitability

Table 4: Fee income (R'm)	**FY14**	**FY15**
Affinity	4.3	9.3
Risk finance	25.2	26.3
UMA	43.3	48.2
Promoter	(0.8)	(0.8)
Total	**71.9**	**83.0**

Source: Management accounts. Including margin fee.

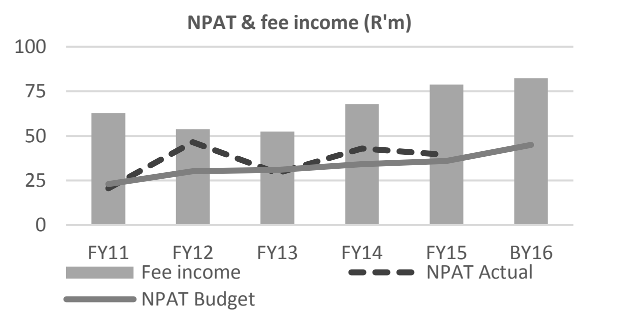
Following higher business volumes, fee income increased by a robust 15% to R83m in FY15, equating to a stable 4% of GWP. Accordingly, total income from clients rose by 16% to R132m for the year. Fee income is expected to reduce to 3% of gross premiums in FY16, as a result of the business mix.

Management and staff expenses were well contained, and collectively equated to a lower 64% of client income (FY14: 67%). However, after accounting for a reduction in sundry income (relating to solvency fee write-backs) and more subdued shareholder investment returns (primarily interest rate driven), NPAT declined slightly, to R39m from R43m previously. This translated into a ROaE of 20%, compared to an average of around 22% over the preceding four years, albeit within the targeted range. The insurer declared a R50m dividend in early FY15, which equated to 116% of prior year NPAT. No further dividend was declared with respect to FY15, as the company sought to maintain a capital buffer in the lead up to Solvency Assessment and Management ("SAM").

Table 5: Income statement (R'm)	**Actual FY14**	**FY15 Actual**	**FY15 Budget**	**Budget FY16**
GWP	***2,038.1***	***2,287.2***	***2,303.7***	***2,543.1***
U/w result*	12.2	23.5	15.2	26.2
Mgmt. fees	67.9	78.7	74.8	82.4
Inv inc – clients	34.3	30.2	30.9	36.8
Inc from clients	**114.4**	**132.4**	**121.0**	**145.4**
Mgmt. expenses	(21.6)	(23.1)	(25.5)	(28.9)
Staff expenses	(39.4)	(43.3)	(45.5)	(47.6)
Sundry items	8.2	2.1	0.0	0.0
Before incentives	**61.7**	**68.2**	**50.0**	**68.9**
Bonuses	(10.1)	(13.4)	(9.0)	(12.5)
Staff sh scheme	(5.7)	(4.5)	(3.5)	(5.0)
After incentives	**45.9**	**50.3**	**37.5**	**51.4**
Ret. on s/h capital	11.0	10.5	12.5	11.1
Tax	(13.9)	(21.4)	(14.0)	(17.5)
NPAT	**43.0**	**39.4**	**36.0**	**45.0**

Source: Management accounts.
*Including float and foreign exchange movements.

Despite the softening in FY15, GCR expects the insurer to continue to achieve comparatively robust net profitability, given the large portion of fee based earnings. Furthermore, note is taken of the company's strategy to reduce concentration in terms of its risk participation on client portfolios (limiting this to about 20% to 30%), which is expected to reduce earnings volatility over the rating horizon.



Capital adequacy

Capital management
Centriq manages its capital levels in line with targeted ROaE objectives, and paid a large ordinary dividend of R50m in early FY15. In the event of future solvency strain, the preferred approach would be to use Santam's reinsurance capacity to alleviate the shortfall, rather than relying on additional capital injections (thus preserving targeted return on equity).

Centriq has developed an internal model that is relatively aligned with anticipated SAM principles, with the exception of the underwriting module, which applies the actual reinsurance structure. The insurer monitors solvency at both the statutory and promoter levels each month to ensure an adequate buffer over and above the economic capital requirement.

Cell solvency

Table 6: Capital shortfall (R'm)	**FYE13**	**FYE14**	**FYE15**	**1Q F16**
Total	**57.5**	**32.7**	**42.7**	**34.8**
Adjusted*	***27.2***	***14.2***	***7.3***	***10.9***

*Based on Internal Model.

The contractual arrangements with cell owners provide for the separation of funds and limitation of cross-subsidisation between cells. Despite these contractual arrangements, SA legislation does not allow for the legal ring fencing of funds in the case of liquidation, and currently regards the assets and liabilities of third-party cells as part of the assets and liabilities of the insurer. Given the credit risk associated with capital shortfalls in the cells, Centriq monitors the individual solvency positions of the cells using Statutory Interim measures of SAM and its internal model. Depending on what has been contracted, if cells fall short of the required Interim Measure solvency level, a portion of promoter capital is allocated, with a solvency fee charged on the difference between the Interim Measure requirement and the capital in the cell.

The cumulative capital shortfall in the cells increased to R43m on an Interim Basis as at FYE15. Management attributes this to the treatment of disallowed assets under Interim Measures, and is comfortable that most active cells will be adequately capitalised under SAM. In this regard, the internal model more closely approximates the risk based capital adequacy requirement, with the capital shortfall on this basis amounting to R11m at 1Q F16. This equated to 5% of shareholders funds, compared to around 33% four years ago. The containment of the cells' overall solvency shortfalls enhances the insurer's credit strength and is favourably viewed from a rating perspective.

Statutory solvency
From a statutory perspective, the cell owners' funds are included in the calculation of net surplus assets at the licence level, with a ring fencing adjustment built into the Solvency Capital Requirement ("SCR"). SCR cover registered at a sound level at FYE15, although is expected to be managed at around 1.1x once SAM has been fully implemented.

Promoter solvency
The internal capital adequacy position for the promoter is summarised below. Capitalisation levels are managed to maintain promoter CAR cover above 1x excluding the Santam draw down facility. Overall, risk based capitalisation is expected to be maintained at sufficient levels to support the rating, and is complemented by the additional financial flexibility afforded by the Santam draw down facility.

Table 7: Promoter solvency (R'm)	FYE14	FYE15	1Q F16
Premium risk	78.2	81.1	95.0
Reserve risk	11.9	21.3	19.7
Market risk	108.2	112.9	120.7
Operational risk	36.0	42.2	43.2
Diversification	(50.7)	(44.7)	(47.9)
SCR	**183.6**	**212.8**	**230.7**
Loss abs. capacity of deferred tax	(60.8)	(59.6)	(64.6)
Economic capital requirement	**122.9**	**153.2**	**166.1**
Net capital shortfall in cells	14.2	7.3	10.9
Total capital requirement	**137.0**	**160.5**	**177.0**
Shareholders' funds	203.0	192.4	211.5
Santam draw down facility	50.0	50.0	50.0
Available capital	**253.0**	**242.4**	**261.5**
CAR cover (x)			
Promoter CAR (minimum)	*1.5*	*1.2*	*1.2*
Promoter CAR (incl. draw down)	*1.8*	*1.5*	*1.5*

Source: Management accounts.

Reserving

IBNR provisions are based on the Interim Measures, and where sufficient data is available (in terms of claims volumes and the period over which claims are recorded), portfolios are gradually being transitioned to SAM parameters based on development patterns. Management expects the move to SAM to result in enhanced year on year stability in reserving patterns over the medium term. Centriq assesses the adequacy of IBNR reserves quarterly using internal data. These results are compared to historical experience to monitor inconsistencies, and developing trends are incorporated into the assumptions.

Asset management

Investment strategy

Table 8: Investments	FYE14		FYE15	
	R'm	%	R'm	%
Cash & MM	798.1	28.5	776.0	24.7
Debt securities	1,978.6	70.5	2,348.2	74.6
Listed equities	26.9	1.0	22.9	0.7
Unlisted equities	1.1	0.0	0.0	0.0
Total	**2,804.7**	**100.0**	**3,147.2**	**100.0**

The majority of preference shareholders' funds are invested in a pool of largely liquid investments, with deviations governed by contractual agreement with the cell owner. The investment portfolio is managed by Sanlam Investment Management ("SIM"). In terms of Centriq's group risk appetite criteria, the portfolio must comply with SIM's Credit Risk Framework, which is approved by the Sanlam Group's Central Credit Committee. Credit rating restrictions are in place across the investment portfolio. Investments in equities and regulated entities are each limited to 5% of portfolio assets, while investments per single unregulated entity are limited to 2.5%. The Centriq group exposure to any single bank is limited to 25% of portfolio assets. Approximately 95% of invested assets at FYE15 were placed with counterparties rated BBB- and above on an international scale.

The insurer continues to maintain a low risk balance sheet, with cash and investments accounting for more than 80% of the total asset base over the past four years (FYE11: 78%), and exposure to equities remaining low.

Liquidity

Income statement liquidity measures continue to register at sound levels on both an IFRS and statutory basis. IFRS cash and interest bearing securities covered technical liabilities and preference shareholders funds 1.1x, having been maintained at roughly this level throughout the review period. Based on the FY15 ST return, cash and interest bearing securities covered net technical provisions a comfortable 1.5x at FYE15. This measure includes the net surplus assets of the cell owners, and assumes that the funds are not ring fenced against any particular liabilities. Consolidated liquidity levels are expected to remain sound, underpinned by the company's conservative investment policy, which is not expected to change over the medium term.

Table 9: Liquidity measures	IFRS		ST	
	FY14	FY15	FY14	FY15
Claims cover (months)	18.9	19.1	27.1	31.6
Expense cover (months)	13.9	14.2	17.3	23.2
Cash & interest bearing : tech. & pref s/h liabilities (x)	1.0	1.1	1.6	1.5

Reinsurance

In terms of Centriq's risk appetite criteria, the insurer only places reinsurance with counterparties that are rated A- and above, unless specific board approval is obtained or a pay-as-paid clause is included in the insurance contract. Facultative premiums per entity are limited to 10% of total reinsurance premiums. Furthermore, aggregate exposure per reinsurer is limited to 25% of total exposure and 30% with respect to Santam. At the promoter level, maximum net retention per risk and event amounts to R8.6m and R10m respectively (including reinstatement premiums), equating to 4.5% and 5.2% of FYE15 shareholders funds. The company has set risk tolerance levels of 7.5% and 12.5% of time weighted shareholders funds respectively (including reinstatement premiums).

Table 10: Reinsurance account (R'm)	FY12	FY13	FY14	FY15
Premiums earned	(925.6)	(629.5)	(391.7)	(609.7)
Claims recovered	440.2	512.1	318.4	260.6
Commission	182.3	125.2	78.8	145.8
RI technical result	**(303.1)**	**7.8**	**5.5**	**(203.3)**
Ratios (%)				
Claims ratio	47.6	81.4	81.3	42.7
Commission ratio	19.7	19.9	20.1	23.9
Tech margin	(32.7)	1.2	1.4	(33.3)

Source: ST returns.

Following catastrophe related claims recoveries in FY13 and FY14, the reinsurance loss ratio normalised to 43% in FY15 (FY14: 81%). After accounting for higher average commission receipts, the reinsurance technical margin amounted to 33% (FY14: -1%). The reinsurance four year technical margin has averaged 21% since FY11, compared to a corresponding gross technical margin of 26%, indicating a well-balanced profit trade-off.

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Centriq Insurance Company Limited

(R in millions except as noted)

Year ended : 31 December		2011	2012	2013	2014	2015
Income Statement						
Gross written premium (GWP)		2,157.8	2,164.8	1,906.6	1,756.4	2,031.5
Reinsurance premiums		(1,627.8)	(1,599.9)	(1,277.7)	(883.3)	(1,152.5)
Net written premium (NWP)		**530.0**	**564.8**	**628.9**	**873.1**	**879.0**
(Increase) / Decrease in insurance funds		(37.3)	(144.6)	64.0	(177.3)	(209.2)
Net premiums earned		**492.8**	**420.3**	**692.9**	**695.8**	**669.8**
Claims incurred		(379.9)	(303.0)	(550.9)	(507.6)	(487.8)
Commission		(70.0)	(53.4)	(56.5)	(68.9)	(19.0)
Management expenses		(49.7)	(62.2)	(85.8)	(110.7)	(149.3)
Underwriting profit / (loss)		**(6.8)**	**1.6**	**(0.2)**	**8.6**	**13.8**
Policyholder bonus		(59.5)	(37.3)	(65.4)	(74.9)	(105.4)
Investment income*		138.3	142.1	151.4	185.0	224.0
Fair value adjustment - preference share capital		(41.4)	(41.2)	(44.5)	(61.9)	(71.7)
Taxation		(7.6)	(17.8)	(11.0)	(13.9)	(21.4)
Net income after tax		**23.1**	**47.4**	**30.3**	**43.0**	**39.4**
Dividends in respect of prior financial year		0.0	(28.3)	0.0	(19.4)	(50.0)
Balance Sheet						
Shareholders interest		**130.1**	**149.2**	**179.5**	**203.0**	**192.4**
Preference shares/cell owners' capital		588.8	611.2	829.8	935.3	948.3
Net UPR		1,239.8	1,365.9	1,252.2	1,371.2	1,567.7
Net OCR & IBNR		360.7	263.6	414.1	397.8	395.3
Other liabilities		401.9	341.9	332.6	337.6	539.1
Total capital & liabilities		**2,721.4**	**2,731.7**	**3,008.2**	**3,244.8**	**3,642.7**
Fixed assets		3.1	3.4	2.9	7.2	6.3
Investments		1,589.0	1,945.8	1,928.2	2,006.6	2,371.2
Cash and short term deposits		535.5	293.0	637.5	798.1	776.0
Other assets		593.9	489.5	439.7	432.9	489.2
Total assets		**2,721.4**	**2,731.7**	**3,008.2**	**3,244.8**	**3,642.7**
Cash flow statement						
Cash generated by operations		(70.6)	(49.4)	(59.0)	(15.6)	59.0
Cash flow from investment income		125.5	145.4	139.1	177.5	198.2
Working capital decrease / (increase)		155.4	77.6	149.5	114.7	169.8
Tax paid		(21.3)	1.9	19.5	(16.9)	(26.0)
Cash available from operating activities		**189.0**	**175.5**	**249.1**	**259.6**	**400.9**
Dividends paid		0.0	(28.3)	0.0	(19.4)	(50.0)
Cash flow from operating activities		**189.0**	**147.2**	**249.1**	**240.2**	**350.9**
Cash flow from investing activities		**(497.4)**	**(359.1)**	**16.2**	**(85.1)**	**(366.1)**
Cash flow from financing activities		**(54.1)**	**(30.6)**	**79.2**	**5.5**	**(6.9)**
Net cash inflow / (outflow)		**(362.4)**	**(242.4)**	**344.5**	**160.6**	**(22.1)**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	24.5	26.4	28.5	23.3	21.9
Total capital / NWP	%	135.6	134.6	160.5	130.4	129.8
Statutory CAR	x	--	1.7	1.9	1.9	2.1
Net UPR / NWP	%	233.9	241.8	199.1	157.0	178.3
Net OCR / NWP	%	68.1	46.7	65.9	45.6	45.0
Cash : Net tech liabilities	x	0.3	0.2	0.4	0.5	0.4
Cash & fixed income : Pref s/holders funds and net tech. liabilities	x	1.3	1.4	1.5	1.6	1.6
Cash claims coverage	months	16.9	11.6	13.9	18.9	19.1
Efficiency / Growth	%					
GWP growth	%	5.9	0.3	(11.9)	(7.9)	15.7
Retention	%	24.6	26.1	33.0	49.7	43.3
Earned loss ratio	%	77.1	72.1	79.5	72.9	72.8
Commission expense ratio	%	14.2	12.7	8.1	9.9	2.8
Management expense ratio	%	10.1	14.8	12.4	15.9	22.3
Underwriting margin	%	(1.4)	0.4	(0.0)	1.2	2.1
Combined ratio	%	101.4	99.6	100.0	98.8	97.9
Operating margin**	%	6.2	15.5	6.0	8.2	9.1
Profitability						
ROaE	%	14.7	33.9	18.4	22.5	19.9
Investment yield	%	6.8	6.5	6.3	6.9	7.5
Dividend cover***	x	0.8	n.a.	1.6	0.9	n.a.

*   *Including foreign exchange and unrealised movements.*

*** Includes policyholder bonus, investment income and fair value adjustment - preference share capital.*

**** Relates to dividends paid in the following financial year.*

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.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
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.
Captive Insurance Company	A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
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.
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.
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.
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.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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 Flexibility	The company's ability to access additional sources of capital funding.
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.
Income Statement	A summary of all the expenditure and income of a company over a set period.
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.
Interest	Money paid for the use of money.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
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 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 Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Personal Lines	Types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
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.
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.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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.

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.
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.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Securities	Various instruments used in the capital market to raise funds.
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.
Statutory Solvency Margin	Gives an indication as to whether the minimum regulatory solvency margin is being met, based on the net statutory assets to statutory net premiums ratio.
Technical Margin	Measures the percentage of net earned premiums remaining after accounting for claims and expenses incurred.
Technical Result	Net premiums earned less net claims incurred and net commission expenses.
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.

For a detailed glossary of terms please click here

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SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Centriq Insurance Company Limited participated in the rating process via face-to-face management meetings 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 Centriq Insurance Company Limited with no contestation of the rating.

The information received from Centriq Insurance Company Limited and other reliable third parties to accord the credit rating included:

- The latest audited financial statements to 31 December 2015
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2016
- Year to date management accounts to 31 March 2016
- Quantitative and qualitative statutory returns to 31 December 2015
- A summary of the 2016 reinsurance programme
- 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.