Operating Company Composite

Ultimate Parent: C-Re Holding Limited

CONTINENTAL REINSURANCE PLC

St. Nicholas House, 8th Floor, 6, Catholic Mission Street, P.O. Box 2401, Lagos, Nigeria
Web: www.continental-re.com
Tel: 234-1-4622779
AMB#: 078723
Ultimate Parent#: 033767

Publicly Traded Corporation: Continental Reinsurance Plc.

NSE: CONTINSURE

Report Revision Date: 08/07/2015

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: B+ **Outlook**: Stable
Best's Issuer Credit Rating: bbb- **Outlook**: Stable
Best's Financial Size Category: VII

RATING RATIONALE

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

Rating Rationale: The ratings of Continental Reinsurance Plc (Continental Re) reflect its strong consolidated risk-adjusted capitalisation, solid operating performance and established competitive position in the Nigerian insurance market. Partly offsetting these rating factors are Continental Re’s rising investment risk profile and exposure to Nigeria’s challenging economic environment.

Continental Re’s strong consolidated risk-adjusted capitalisation continues to reflect its low net underwriting leverage, which is partially offset by its high investment risk exposure. The group has a sizeable exposure to real estate, unlisted equities and unlisted fixed-income securities, which combined represent 37% of total investments. These investments are considered to be illiquid.

Continental Re’s earnings remained positive in 2014, albeit at a lower level compared to the previous year. Earnings were supported by the strong underwriting results of its non-life account and stable investment returns, although tempered by the negative results of the small life portfolio, due to the non-renewal of a large contract. Additionally, foreign exchange losses adversely affected earnings owing to the depreciation in the Nigerian naira. Although operating results are expected to remain positive, underpinned by the relatively low claims activity in its target markets in Sub-Saharan Africa, technical margins are likely to continue to be affected by Continental Re's high expense base due to the lack of scale in its operations. Additionally, reduced insurance demand, due to the economic slowdown in Nigeria and its other (oil-exporting) target markets will likely constrain growth in earnings in the near term.

Continental Re maintains a high level of net outstanding premium debtors, representing 42% of gross written premium in 2014 (2013: 42%). However, the maturity profile of premium receivables is improving with 25% of premium debtors maintaining duration of more than a year, an improvement from 46% in 2013. Around a quarter of these receivables relate to pipeline premiums, which are income due to Continental Re but yet to be invoiced, with the remainder in respect of outstanding trade receivables. Although Continental Re has benefited from the new regulation in Nigeria, which prohibits the provision of insurance cover without full payment of premiums in advance, the group remains exposed to premium collection delays in its other target markets.

Continental Re maintains a solid business profile in Nigeria, being the only private local reinsurer. Non-life reinsurance business dominates Continental Re's portfolio, representing approximately 87% of gross written premium, the majority of which is written on a proportional basis. Premiums sourced from Nigeria account for approximately two-thirds of its business. The group continues to develop its profile across Africa through the establishment of regional subsidiaries, which act as hubs to increase the group's access to additional markets within the continent.

Positive rating actions may occur due to the sustained growth in earnings resulting from Continental Re's profitable expansion whilst maintaining adequate capital buffers within its risk-adjusted capitalisation.

Negative rating actions may occur as a result of significant deterioration in Continental Re's underwriting performance, asset impairment owing to the higher than expected write-off in Continental Re's investments or premium receivables, or a decline in risk-adjusted capitalisation due to stronger than anticipated growth in premium volumes. Additionally, a rise in country risk factors may result in negative rating movement.

FIVE YEAR RATING HISTORY

	BEST'S	
Date	FSR	ICR
08/07/15	B+	bbb-
07/18/14	B+	bbb-
07/19/13	B+	bbb-
07/27/12	B+	bbb-
08/22/11	B+	bbb-
08/10/10	B	bb+

BUSINESS PROFILE

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

Continental Reinsurance Plc maintains an established competitive position in Nigeria, operating as one of two local players in the domestic market. The company benefits from a solid business profile with approximately 50% share of the local life business and a 10% share of the local non-life market. Business derived from its core market accounted for approximately 64% of gross written premium (GWP) in 2014.

Continental Re's strategy is based on the development of its profile throughout Africa, supported by its network of branches and subsidiaries. The establishment of a subsidiary network will provide hubs for Continental Re to operate from, increasing its access to the various insurance markets within the continent. Additionally, the subsidiaries will allow the group to participate in business that, due to domestication laws, is required to be retained in some domestic markets as well as enable the introduction of new product offerings, such as retakaful business from the Tunis (Tunisia) office.

The group's underwriting portfolio is diversified by line of business and consists of fire (including commercial property and engineering risks; 36% of GWP), life (13%), accident (including burglary / cash in transit, personal accident and fidelity guarantee; 19%), energy (13%), marine and aviation (10%) and liability (9%). Life business is solely written on a proportional treaty basis, with approximately 90% of non-life business written on a treaty basis. Geographically, premiums sourced from 20 African countries account for approximately 36% of GWP, with Nigeria representing the remainder. A.M. Best does not expect material changes to the group's business mix going forward. However, the proportion of business derived from Nigeria is anticipated to reduce over the medium to longer term as Continental Re's international growth plans gain traction.

Continental Re has demonstrated significant premium growth since 2007, boosted by the economic expansion of its target market. However, the rate of growth has slowed down in recent years, with a rise of 3.6%, to NGN 16.4 billion reported in 2014, mainly due to the non renewal of a large life policy and the slowdown in the expansion of the non-life account.

Although medium- to long-term growth opportunities for Continental Re remain solid, driven by the strong economic prospects of its target market, near-term expansion is likely to be constrained by the slowdown in the economic activity of Nigeria and other oil-exporting countries in which Continental Re operates, as a result of the fall in commodity prices.

Affiliations: Continental Re was incorporated as a private non-life reinsurance company in Lagos (Nigeria) in 1985 and commenced its business operations in 1987. Two years later, the company received its licence to transact life business and commenced underwriting life reinsurance business in 1990. The company was converted to a public LLC in 1999, and in 2007, its shares were listed on the Nigerian Stock Exchange.

Continental Re is owned by foreign and local private shareholders. The main shareholder, which maintains a 51% stake in the company, is an investment vehicle, C-Re Holding Limited, which is a consortium of several investors led by Emerging Capital Partners (ECP), a private equity fund manager which invests in leading companies across Africa. ECP manages this vehicle and acts on behalf of other investors, including RP Capital Group (a hedge fund specialised in emerging markets), Genesis Emerging Markets Fund (London-based investment fund) and Investec Asset Management (South African investment manager).

In addition to this vehicle, ECP is also a direct investor under ECP Africa Fund II, with a 3% shareholding. Other shareholders include African businesses holding less than a 4% stake each in the company. ECP is expected to divest its shareholding in Continental Re, in line with its medium-term investment horizon.

Continental Re maintains a network of branches and subsidiaries throughout Africa. In 2014, Continental Re moved from a branch network to a holding company structure with licensed subsidiaries. In 2012, the group converted its existing branch office in Nairobi (Kenya) into a licensed subsidiary. Ownership in the Kenyan subsidiary reduced to 70% in 2014 from the 100% previously owned, to comply with the Kenyan legislation that requires a Kenyan national to own a minimum stake of 30% in a foreign-owned operation. Continental Re opened a regional office in Tunis and a 60%-owned subsidiary in Gaborone (Botswana) in 2014 and continues to maintain branch operations in Lagos, Abidjan (Ivory Coast) and Douala (Cameroon).

RISK MANAGEMENT

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

Continental Re's risk management framework continues to improve. The company has monitoring and reporting guidelines in place that support its underwriting and investment strategy, as well as reinsurance placements, with a designated chief risk officer that oversees all aspects of risk management.

Continental Re has been working with third-party risk management consultants for the last year to produce an automated risk management dashboard. This will enable the company to embed its existing risk appetite and framework throughout the organisation and into all decision-making processes. The automated process aims to improve the company’s ability to identify and monitor its risk exposure, and increase the frequency of reporting these risks from a quarterly to a monthly basis. Continental Re utilises an internally developed catastrophe model to support its exposures and a proprietary capital model to manage its capital adequacy.

A.M. Best views improvements to Continental Re's risk management framework positively, but it is expected to take some time for the new systems to be fully embedded within management's day-to-day decision-making practices, and for the technical developments to be fully realised.

OPERATING PERFORMANCE

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

Operating Results: Continental Re's operating performance is solid as demonstrated by a five-year average return on capital and surplus of 10.5%, supported by good underwriting performance and positive investment earnings.

In 2014, the group reported a pre-tax profit of NGN 1.6 billion, lower than the NGN 2.2 billion produced in 2013, equating to a return on capital and surplus of 5.7% (2013: 12.8%). The decline in earnings largely reflected the non-renewal of a large life contract, resulting in a meaningful technical loss for the life account. Additionally, operating results were affected by the higher expense pressure associated with the group's expansion, slowdown in growth of the non-life portfolio and foreign exchange losses due to the depreciation of the Nigerian naira in 2014.

In terms of the group's geographical performance, for business derived from Nigeria Continental Re experienced a considerable improvement in technical results, with a better combined ratio of 97% (2013: 104.1%). Kenya and Cameroon, representing 15% and 8% of Continental Re's GWP, respectively, underperformed with combined ratios of 98% and 72% (2013: 85% and 62%), mainly due to the increased acquisition costs for the newly setup subsidiaries.

Continental Re maintains, albeit reducing, a large amount of outstanding premiums from cedants and brokers, with premium debtors representing 41.7% of GWP in 2014, compared with 41.8% in 2013. Around a quarter of these receivables relate to future pipeline premiums, which are income owed to Continental Re but yet to be invoiced, with the remainder in respect of outstanding trade receivables. The maturity profile of Continental Re's premium receivables is gradually improving with 25% of outstanding premium debtors maintaining a duration of more than one year, compared with 46% in 2013. This is a positive development corresponding to the 2013-adopted regulation in Nigeria, of “No Premium, No Cover”. However the group remains exposed to policy cancellations in its core market and premium collection delays in its other target markets. Overall premium due more than a year decreased to NGN 1.7 billion in 2014 (2013: NGN 2.9 billion).

BALANCE SHEET STRENGTH

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

Capitalization: Continental Re’s consolidated risk-adjusted capitalisation remains at a strong level, reflecting its low net underwriting leverage. Overall reported surplus increased to NGN 14.8 billion in 2014 (2013: NGN 14.3 billion), supported by earnings retention. Going forward, the group is likely to use a combination of retained earnings and capital raises to support its expansion.

Continental Re manages its capital adequacy according to regulatory solvency and rating agency requirements. The group also uses a proprietary model to manage capital internally, which considers market, operating, credit and growth risks. The board adopted a formal dividend policy in 2011. The current policy considers capital planning, long-term sustainability and shareholder preferences when deciding dividend payments. Historically, dividend payments have been fairly high with a five-year average payout ratio of 53.7%, ranging between 46.4% and 59.2% during the period.

Continental Re maintains a high investment risk profile, reflective of its operations across Africa, in countries which A.M. Best views as having high financial system risk. The group's investment portfolio consists of cash and short-term investments (representing 33% of total investments in 2014), fixed-income securities (29%), equities (19%), property (19%) and other loans (1%). The fixed-income portfolio consists solely of sub-investment-grade securities. Non-listed investments mainly relate to unquoted equities and bonds and account for 18% of total investments in 2014. Additionally, the group's property investments have increased from 12% in 2013 to 19% in 2014 following the purchase of a mixed commercial and residential development in Abidjan.

Continental Re has an in-house, fully qualified actuary. The group uses traditional actuarial methods to establish reserve provisions. For non-life business, an internal actuarial analysis, including a profitability analysis of reserves, is undertaken annually. At year-end 2014, an independent external valuation for the non-life portfolio was performed. The third-party's estimates of reserves were in line with those of Continental Re, supporting the adequacy of Continental Re's provisions.

For the life business, internal valuations are undertaken on a quarterly basis and an external valuation on an annual basis. According to the 2014 actuarial reports prepared by the independent external actuary, there was no surplus in the life fund compared to a reserve surplus of NGN 519 million in 2012.

Summarized Accounts as of December 31, 2014

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

An independent audit of the company's affairs through December 31, 2014, was conducted by Ernst & Young.

US $ per Local Currency Unit .005525 = 1 Nigerian Naira (NGN)

STATEMENT OF INCOME

	12/31/2014 NGN(000)	12/31/2014 USD(000)
General technical account:		
Reinsurance premiums assumed	11,238,629	62,093
Gross premiums written	11,238,629	62,093
Reinsurance ceded	1,284,705	7,098
Net premiums written	9,953,924	54,995
Increase/(decrease) in gross unearned premiums	35,558	196
Net premiums earned	9,918,366	54,799
Total underwriting income	9,918,366	54,799
Net claims paid	4,534,912	25,055
Net increase/(decrease) in claims provision	-114,980	-635
Net claims incurred	4,419,932	24,420
Management expenses	1,384,911	7,652
Acquisition expenses	2,842,919	15,707
Net operating expenses	4,227,830	23,359
Total underwriting expenses	8,647,762	47,779
Balance on general technical account	1,270,604	7,020
Life technical account:		
Reinsurance premiums assumed	1,937,587	10,705
Gross premiums written	1,937,587	10,705
Reinsurance ceded	359,902	1,988
Net premiums written	1,577,685	8,717
Net premiums earned	1,577,685	8,717
Net investment income	47,135	260
Total revenue	1,624,820	8,977
Net claims paid	1,108,475	6,124

Net claims incurred	1,108,475	6,124
Net increase/(decrease) in long term business provision	71,130	393
Management expenses	272,618	1,506
Acquisition expenses	437,817	2,419
Net operating expenses	710,435	3,925
Total expenses	1,890,040	10,442
Balance on long-term technical account	-265,220	-1,465
Combined technical account:		
Reinsurance premiums assumed	13,176,216	72,799
Gross premiums written	13,176,216	72,799
Reinsurance ceded	1,644,607	9,086
Net premiums written	11,531,609	63,712
Increase/(decrease) in gross unearned premiums	35,558	196
Net premiums earned	11,496,051	63,516
Net investment income	47,135	260
Total revenue	11,543,186	63,776
Net claims paid	5,643,387	31,180
Net increase/(decrease) in claims provision	-114,980	-635
Net claims incurred	5,528,407	30,544
Net increase/(decrease) in long term business provision	71,130	393
Management expenses	1,657,529	9,158
Acquisition expenses	3,280,736	18,126
Net operating expenses	4,938,265	27,284
Total underwriting expenses	10,537,802	58,221
Balance on combined technical account	1,005,384	5,555
Non-technical account:		
Net investment income	747,411	4,129
Realised capital gains/(losses)	54,841	303
Unrealised capital gains/(losses)	-127,232	-703
Exchange gains/(losses)	-460,617	-2,545
Other income/(expense)	60,207	333
Profit/(loss) before tax	1,279,994	7,072
Taxation	618,471	3,417

Profit/(loss) after tax	661,523	3,655
Dividend to shareholders	1,141,002	6,304
Transfer to reserves	356,535	1,970
Exceptional income/(expense)	-60,854	-336
Retained Profit/(loss) for the financial year	-896,868	-4,955
Retained Profit/(loss) brought forward	2,423,196	13,388
Retained Profit/(loss) carried forward	1,526,328	8,433

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2014	12/31/2014
	NGN(000)	USD(000)
Capital & surplus brought forward	14,147,335	78,164
Change in non-distributable reserves	356,535	1,970
Change in other reserves	-356,535	-1,970
Profit or loss for the year	661,523	3,655
Capital gains or (losses)	19,657	109
Dividend to shareholders	-1,141,002	-6,304
Other changes	-60,854	-336
Total change in capital & surplus	-520,676	-2,877
Capital & surplus carried forward	13,626,659	75,287

ASSETS

	12/31/2014	12/31/2014	12/31/2014
	NGN(000)	% of total	USD(000)
Cash & deposits with credit institutions	4,303,155	17.3	23,775
Bonds & other fixed interest securities	2,707,248	10.9	14,958
Shares & other variable interest instruments	1,004,707	4.0	5,551
Liquid assets	8,015,110	32.2	44,283
Unquoted investments	3,017,414	12.1	16,671
Mortgages & loans	207,802	0.8	1,148
Real Estate	3,386,511	13.6	18,710
Inter-company investments	1,722,633	6.9	9,518
Other investments	171,524	0.7	948
Total investments	16,520,994	66.4	91,278

Reinsurers' share of technical reserves - claims	167,232	0.7	924
Reinsurers' share of technical reserves - life	168,703	0.7	932
Total reinsurers share of technical reserves	335,935	1.3	1,856
Insurance/reinsurance debtors	5,274,202	21.2	29,140
Inter-company debtors	728,064	2.9	4,023
Total debtors	6,002,266	24.1	33,163
Fixed assets	154,303	0.6	853
Prepayments & accrued income	1,410,909	5.7	7,795
Other assets	460,094	1.8	2,542
Total assets	24,884,501	100.0	137,487

LIABILITIES

	12/31/2014 NGN(000)	12/31/2014 % of total	12/31/2014 USD(000)
Capital	5,186,372	20.8	28,655
Paid-up capital	5,186,372	20.8	28,655
Non-distributable reserves	6,913,959	27.8	38,200
Retained earnings	1,526,328	6.1	8,433
Capital & surplus	13,626,659	54.8	75,287
Gross provision for unearned premiums	4,615,879	18.5	25,503
Gross provision for outstanding claims	3,263,740	13.1	18,032
Gross provision for long term business - life	1,124,687	4.5	6,214
Total gross technical reserves	9,004,306	36.2	49,749
Insurance/reinsurance creditors	1,175,735	4.7	6,496
Inter-company creditors	77,637	0.3	429
Other creditors	607,122	2.4	3,354
Total creditors	1,860,494	7.5	10,279
Accruals & deferred income	189,913	0.8	1,049
Other liabilities	203,129	0.8	1,122
Total liabilities & surplus	24,884,501	100.0	137,487

ANALYSIS OF GROSS PREMIUMS WRITTEN

	NGN (000) 2014	NGN (000) 2013	NGN (000) 2012	NGN (000) 2011	2010
Accident & health	1,846,015	1,860,085	2,302,075	1,615,822	…
Fire	4,670,287	5,091,043	3,977,602	4,510,672	…
Liability	1,106,700	1,017,736	822,910	797,036	…
Marine	1,500,666	1,180,674	877,017	1,192,011	…
Other classes	2,114,961	2,301,624	1,911,859	1,368,996	…
Total non-life	11,238,629	11,451,162	9,891,463	9,484,537	…

REINSURANCE

The following text is derived from A.M. Best's consolidated Credit Report on Continental Reinsurance Plc (AMB# 093641).

The credit quality of Continental Re's retrocession programme remains strong with the majority of reinsurance ceded to reinsurers that maintain secure ratings. There has been a significant improvement in the credit quality of reinsurers in recent years. Since 2012, roughly three quarters of the total outward reinsurance exposures were placed with reinsurers that have strong financial strength, and at year-end 2014, 84% of its reinsurance was provided by such entities.

The reinsurance programme remains largely unchanged in 2015. Continental Re purchases non-proportional reinsurance protection to cover its various lines of business, with a different programme and well-spread panel of reinsurers for each class.

GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

	NGN (000) 12/31/2014 Gross	12/31/2014 % of total	NGN (000) 12/31/2013 Gross
Other Africa	13,176,216	100.0	14,120,755
Total Africa	13,176,216	100.0	14,120,755
Total	13,176,216	100.0	14,120,755

BALANCE SHEET ITEMS

	NGN (000) 2014	NGN (000) 2013	NGN (000) 2012	NGN (000) 2011	NGN (000) 2010
Liquid assets	8,015,110	10,356,738	10,891,004	10,748,862	11,259,194
Total investments	16,520,994	17,257,149	15,522,350	15,545,917	14,101,959
Total assets	24,884,501	25,042,296	24,049,439	21,557,867	18,791,104
Total gross technical reserves	9,004,306	8,961,159	9,237,451	7,747,320	5,756,745
Net technical reserves	8,668,371	8,681,912	8,458,304	7,600,346	5,756,745
Total liabilities	11,257,842	10,894,961	10,814,072	9,242,589	7,171,648
Capital & surplus	13,626,659	14,147,335	13,235,367	12,315,278	11,619,456

INCOME STATEMENT ITEMS

	NGN (000) 2014	NGN (000) 2013	NGN (000) 2012	NGN (000) 2011	NGN (000) 2010
Gross premiums written	13,176,216	14,120,755	12,397,652	11,647,038	11,644,720
Net premiums written	11,531,609	12,530,349	10,843,431	10,351,941	10,776,765
Balance on technical account(s)	1,005,384	872,952	977,027	1,109,795	769,453
Profit/(loss) before tax	1,279,994	2,001,410	2,132,423	1,829,729	1,584,999
Profit/(loss) after tax	661,523	1,586,457	1,732,984	1,442,579	1,230,233

LIQUIDITY RATIOS (%)

	2014	2013	2012	2011	2010
Total debtors to total assets	24.1	23.2	22.6	21.3	24.2
Liquid assets to net technical reserves	92.5	119.3	128.8	141.4	195.6
Liquid assets to total liabilities	71.2	95.1	100.7	116.3	157.0
Total investments to total liabilities	146.8	158.4	143.5	168.2	196.6

LEVERAGE RATIOS (%)

	2014	2013	2012	2011	2010
Net premiums written to capital & surplus	84.6	88.6	81.9	84.1	92.7
Net technical reserves to capital & surplus	63.6	61.4	63.9	61.7	49.5
Gross premiums written to capital & surplus	96.7	99.8	93.7	94.6	100.2
Gross technical reserves to capital & surplus	66.1	63.3	69.8	62.9	49.5
Total debtors to capital & surplus	44.0	41.0	41.0	37.4	39.1
Total liabilities to capital & surplus	82.6	77.0	81.7	75.0	61.7

PROFITABILITY RATIOS (%)

	2014	2013	2012	2011	2010
Loss ratio	44.6	46.5	47.0	43.3	43.2
Operating expense ratio	42.5	46.0	46.0	45.1	36.0
Combined ratio	87.0	92.6	93.0	88.4	79.3
Other technical expense or (income) ratio	…	…	…	…	8.9
Net investment income ratio	7.5	6.9	11.3	8.9	7.3
Operating ratio	79.5	85.7	81.7	79.4	80.9
Benefits paid to net premiums written (Life)	74.8	51.0	43.1	55.6	56.5
Expense ratio (Life)	45.0	48.0	43.0	43.7	36.9
Return on net premiums written	5.7	12.7	16.0	13.9	11.4
Return on total assets	2.4	6.5	7.1	7.2	7.1
Return on capital & surplus	4.3	11.6	12.7	12.1	10.8