Creditreform
Rating Agentur

Creditreform Rating Summary

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Issuer:	Enterprise Holdings Limited	Issue rating: A-	
Issue:	7,00% bearer bond WKN: A1G9AQ ISIN: DE000A1G9AQ4	Date:	29.08.2013
Creditreform ID:	2000000234	Valid until:	28.08.2014
Issuer:	Enterprise Holdings Limited Suite 3, Second Floor, ICOM House, 1/5 Irish Town Gibraltar, United Kingdom		
Type of business:	Holding company		

Note:

This Creditreform Rating Summary is based on the Rating Report for the bearer bond WKN A1G9AQ/ISIN: DE000A1G9AQ4 issued by EnterpriseHoldings Limited. This Report contains further relevant information concerning the issue rating. In the event of any inconsistencies between the two documents, the Issue Rating Report shall prevail. The rating is not subject to any qualifications or reservations

Summary

The past business year brought another significant rise in the total volume of premiums which increased from GBP 75.20 million on 31 March 2012 to GBP 134.81 million as per 31 March 2013. No preliminary figures for Q2 of 2013 (until 30 June) had been released by the cutoff day of the rating. Interim business data, however, suggest another significant increase in the volume of premiums for the period.

This development has been accompanied by an increase in the balance sheet total from GBP 93.66 million as per 31 March 2012 to GBP 165.57 million as per 31 March 2013, reflecting the mechanism of the business model. For the past three years, the issuer has been able to generate continuously positive cash flows from its operative business. Reflecting a reassessment of the loss provisions which was based on the absence of a recent claims history, one-off non-cash expenses with a total volume of GBP 19.52 million were disclosed in the annual statement as per 31 March 2013 which adversely affected the otherwise highly positive operating result as well as, accordingly, the equity ratio.

According to our analyses, however, this should – on the basis of the anticipated claims scenario – make the position of the bond holders more rather than less secure, since the bond is constructed in such a way that this arrangement does not affect payments into the account from which interests and principal are being paid, while leading to a significantly increase in the loss reserves. At the same time, the resulting slowdown in growth will also delay the planned diversification of the insurance portfolio, offsetting – in our view – these risk positions.

We believe that the reinsurance ratio of (at the last count) 43 %, the ratio of other expenses to the volume of premiums (which has remained acceptable, despite considerable non-recurring expenses) and the ratio of loss provisions to actual losses (which has improved and is now better than average) compensate for the Group's below-average equity ratio which itself reflects the company's continuous growth and the reassessment of its loss provisions.

Based on the company's business plans and the existing level of demand for new insurance policies in different industries and geographical regions, we expect the planned growth to generate the cash flows that will be required to service the bond (to pay the agreed interest rate and ultimately to redeem it) even if this growth may be slower than anticipated, the placement of the aforementioned bearer bond having been delayed and equity deposits having become necessary to comply with financial regulations. We believe this also for the reason that we expect the majority of the bond's proceeds to be invested in compliance with the capital investment restrictions.

The operating risks are, in our view, adequately described in the prospectus. In the light of current financial regulations, we believe that these risks are manageable, not least because the risks from certain insurance policies will continue to decrease, due to the approaching end of their term and their decreasing relative size in proportion to the overall volume of premiums.

In the light of our conversations with leading executives – who take the typically balanced approach of managers in medium-sized companies - we believe that the personnel risks are equally under control. Currency risks for the issuer and the investors are small, since the currency of incoming premiums and outgoing loss regulations is one and the same, which means that currency risks only exist for investments of reserves and other expenses. Investors should take into account that the issuer plans to invest the proceeds of the bond exclusively in Euro and is considering to reduce the currency risk further by transferring the Euro-denominated operating business to a separate insurance company which will conduct its business exclusively in Euro.

The possibility that financial regulations may change during the term of the bond continues to constitute a risk. The issuer is trying to control this risk by keeping in close contact with the regulatory authorities before any such changes can take effect.

Conclusions

The proceeds of the bond are intended to provide the equity deposit for the Enterprise Insurance Company Plc, a member of the Group, a deposit which is required by the regulations. Due to the delays in the placement of the bond and the changed standards for the assessment of loss provisions, the growth plans could not be implemented in full, but the funds for these plans continue to be available.

In the light of the covenants, one may expect that the equity deposit will comply with the regulatory capital investment restrictions. An inquiry has not produced any evidence to the contrary. Since the covenants rule out any sale of the shares in the Group's companies and any use of the assets as guarantees for the purposes of a (mortgage-type) loan, one may also expect that the proceeds of the bond will be preserved in their substance, even though no explicit collateralization concept has yet been provided. The issuer has furthermore committed itself in the prospectus to transfer monthly interim payments equivalent to 50 % of the estimated net profit to a separate account. Any failure to comply with these distribution obligations will entitle any investor to exercise his right of extraordinary termination. Our rating also took into account the investor's option of cancelling the agreement prematurely by 26 September 2015 through ordinary termination.

The business plans anticipate a positive development of the assets, finances and earnings, demonstrating the ability to generate sufficient funds from the operating cash flow to redeem the bond as planned.

Our analysis of the issue has demonstrated that the claims of the creditors can, based on the currently known facts and in consideration of all discernible risks, most likely be satisfied. Overall, we have assessed the bond issue WKN: A1G9AQ / ISIN: DE000A1G9AQ4 with a rating of A-. The issue is therefore of good financial strength.

Disclaimer

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