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Global Alliance Seguros, S.A.

Mozambique Insurance Analysis **July 2017**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-$_{(MZ)}$	Stable	June 2018

Financial data:

(USD'm comparative)

	31/12/15	31/12/16
MZN/USD (avg.)	38.54	62.65
MZN/USD (close)	47.03	71.73
Total assets	41.3	30.7
Total capital	17.2	11.0
Cash & equiv.	18.7	17.0
GWP	65.2	39.3
U/w result	(0.1)	(3.9)
NPAT	2.7	(0.4)
Op. cash flow	5.5	9.5
Market cap.		n.a.
Market share*		22%*

*Based on provisional industry GWP for 2016.

Ratings history:

Initial rating (November 2002)

Claims paying ability: BBB+$_{(MZ)}$

Rating outlook: Stable

Last rating (July 2016)

Claims paying ability: AA-$_{(MZ)}$

Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, Updated July 2016

Criteria for Rating Long Term Insurance Companies, Updated July 2016

GA Seguros rating reports, 2002 – 2016

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Summary rating rationale

- Global Alliance Seguros, S.A. ("GA Seguros") reflects a very strong business profile, which is expected to be maintained over the medium term. Notwithstanding the moderation in market share over the past two years (FY16: 22%; FY15: 27%; FY14: 31%), GA Seguros remains a leading player in the short term insurance arena, supported by strong branding and a high level of client support and broker acceptance.
- Having previously represented a primary rating strength, earnings capacity weakened materially over the past two years, with the insurer expected to endure continued margin suppression over the outlook horizon. Weaker earnings capacity was largely due to a marked deterioration in underwriting profitability, with the insurer reporting a highly negative underwriting margin of 21% (FY15: -0.4%; prior four year average: 13%). The underwriting loss was largely a function of sizeable once off reserve adjustments, which saw the claims ratio spike to a high 84% in FY16 (FY15: 65%). This was compounded by a low growth environment, underpinned by stagnating economic activity. Further growth strain is likely to see underwriting results remain constricted in FY17. Positively, claims normalisation may provide some profit relief for the year, with the net result forecast to improve to MZN74m (FY16: -MZN22m). A reversion to increased underwriting profit stability could be attained from FY18 onwards (albeit that the elevated margins reported pre-FY15 are unlikely to be replicated over the short term), should improved economic conditions result in an increased uptake of higher value risks (supporting a lower expense ratio).
- Capital strength was upheld, despite the weakening in earnings. In this regard, GA Seguros has built up a large capital buffer over the review period, which is viewed to cater for the current depressed earnings cycle. The slight erosion of capital in FY16 was offset by a lower quantum of underwriting exposure, leaving risk adjusted capitalisation unchanged at a strong level. Although limited capital build is projected over the short term, strong risk adjusted capitalisation is expected to be maintained amidst ongoing scaling down of the net risk base, with the international solvency margin budgeted at a higher 78% for FY17 (FY16: 70%).
- Liquidity is viewed to be strong, supported by a sizeable investment portfolio (FY16: MZN1.5bn) that is largely weighted towards cash and equivalents (FY16: 83%). The reserving exercise undertaken in FY16 saw a slight reduction in key liquidity metrics, with cash coverage of technical provisions lowering to 1.6x (FY15: 2.3x). This notwithstanding, liquidity metrics are expected to remain at strong levels over the medium term, underpinned by a consistent investment strategy and normalising claims experience. Furthermore, the reinsurance program reflects a strong level of counterparty strength, while the maximum net retentions per risk and event on XOL cover was limited to a low 2.3% of FY16 capital.
- GA Seguros' rating is supported by implicit shareholder support from the Absa group. In this regard, GA Seguros is provided with operational and technical support, as well as an additional avenue for growth by having access to the group's large client base. Furthermore, the group has demonstrated its continued financial support over the review period.

Factors that could trigger a rating action may include

Positive change: The rating currently matches the national scale ceiling applicable to entities operating within the Mozambique insurance industry. As a result, upward movement of the rating may follow an assessment of country and industry risk factors.

Negative change: A deterioration in key rating factors, such as a significant and protracted loss in market share, accompanied by deterioration in underwriting performance, impinging on key credit protection measures, may trigger negative rating action.

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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 is 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 increases 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

Corporate history

GA Seguros was incorporated in 1993, and has established itself as one of the leading insurance companies operating in Mozambique, with four branch offices providing support. The company has a composite licence to transact both non-life and life insurance.

Ownership structure

GA Seguros was previously a 99.5% owned subsidiary of Global Alliance Holdings. During 2011, 100% of GA Seguros' shares were purchased by the Absa group (which is a subsidiary of Barclays Africa Group Limited ("BAGL")). In view of GA Seguros' strong brand in the domestic market, the company retained its name, rather than rebranding to Absa. BAGL was previously majority owned by Barclays Bank Plc (UK), with the latter gradually reducing its shareholding to approximately 16.4% as at June 2017, from 50.1%. The selloff forms part of Barclays Bank Plc (UK)'s strategy to simplify the Barclays group structure.

On account of the likely stability in the shareholding structure over the next two years, GCR does not expect the transaction to have any material adverse impact on the insurer's operations and/or shareholding structure over the rating horizon.

Risk management framework

GA Seguros' risk management and governance framework has been aligned with the Absa group's risk philosophy and methodologies. The framework is managed through the Capital Investment & Underwriting and Risk Governance & Control committees, which convene quarterly. Furthermore, monthly executive committee meetings are held, while GA Seguros has access to Absa insurance and reinsurance expertise when required.

Strategic objectives

In light of the overarching economic environment, GA Seguros has been in a consolidation phase over the past two years. The slowdown in economic activity has had a significant impact on the domestic insurance industry, with industry premiums exhibiting negative real growth in USD terms in FY16. Furthermore, with new insurers entering the market in FY15, there has been increased competition for a shrinking pool of risks. As such, GA Seguros has evidenced successive GWP contractions. During this time, GA Seguros' strategy has largely focused on improving the quality of its business portfolio through more stringent underwriting, as well as rates remediation. This is likely to exert further strain on premium growth over the short term, but may serve to promote a degree of margin enhancement over the medium to longer term. The latter would be supported by higher quality risk retention and cost rationalisation initiatives. Should there be an upturn in activity in the construction and oil and gas sector, GA Seguros may be well positioned to benefit from the potential upscaling of the premium base.

Financial reporting
The 2016 financial statements were audited by PricewaterhouseCoopers, Lda, with an unqualified opinion issued.

Competitive position

Market position
GA Seguros reflects a very strong business profile, which is expected to be maintained over the medium term. Notwithstanding the moderation in market share over the past two years (FY16: 22%; FY15: 27%; FY14: 31%), GA Seguros remains a leading player in the short term insurance arena, a position that is supported by strong branding, and a high level of client support and broker acceptance. As a means of defending existing market share, management will continue to leverage off franchise value, while increasing efforts to improve client service levels in order to mitigate the loss of key accounts during the currently strained operating environment.

Earnings profile

Market segment diversification
The corporate market segment dominated the business mix, comprising 95% of GWP in FY16. This is a function of the long standing relationships that GA Seguros has with large multinationals, manifesting through the ontake of high value corporate/commercial risks. The bulk of corporate risks pertain to property, engineering and motor fleet risks.

Distribution channels
GA Seguros currently has a 93%/7% split between short term ("ST") and long term ("LT") business. In view of the high value corporate/commercial risks dominating the risk pool, broker representation remained moderately high, comprising 51% of total GWP in FY16 (FY15: 47%). In this regard, intermediary concentration is viewed to be moderate, with the single largest and three largest brokers combined accounting for 15% and 34% of total GWP respectively in FY16 (FY15: 18% and 37% respectively). Business sourced directly amounted to 41% (FY15: 44%), while bancassurance channels comprised a lower 6% of total premiums (FY15: 10%). The reduction in bancassurance business was due to the liquidity strain experienced in the banking sector during 2016, leading to more stringent lending protocols. This notwithstanding, GA Seguros will continue to pursue penetration into this channel as a means of supplementing top line revenue during the current economic cycle.

Gross premium diversification
Gross written premiums declined by a further 2% to MZN2.5bn in FY16. According to management, the key factors contributing to the premium contraction included:

- The overall slowdown in economic activity;
- Increased competition that resulted in the loss of major corporate accounts to rival insurers; and
- The non-renewal/cancellation of existing policies (due to affordability constraints).

Table 2: Premiums (MZN'm)	**FY16**		**FY17**	
	Actual	**Budget**	**YTD***	**Budget**
GWP	2,459.8	3,812.5	572.3	2,214.5
NWP	1,117.4	1,694.6	256.5	1,103.2
NPE	**1,171.6**	**1,617.8**	**249.6**	**1,058.5**
Key ratios (%)				
GWP growth**	(2.1)	51.8	(30.2)	(10.0)
Retention	45.4	44.4	44.8	49.8

*Four months to April 2017

**Year to date results annualised.

Note: Budget FY17 translated using an exchange rate of MZN70.91/USD and YTD17 has been translated using an average exchange rate of MZN70.94/USD.

In view of the insurer's strategic objectives, GWP is budgeted to reduce by a further 10% in FY17, as GA Seguros prioritises remedial pricing on risks and retention of better performing policies above growth in the current economic climate.

Table 3: Gross premiums	**FY15**		**FY16**	
	MZN'm	**%**	**MZN'm**	**%**
Fire & engineering	734.6	29.2	640.2	26.0
Motor	370.0	14.7	417.1	17.0
Accident	187.0	7.4	172.4	7.0
Transport	67.6	2.7	69.0	2.8
Miscellaneous	519.6	20.7	389.1	15.8
Liability	63.9	2.5	69.8	2.8
Life	221.4	8.8	183.1	7.4
Medical	348.1	13.9	519.1	21.1
Total	**2,512.2**	**100.0**	**2,459.8**	**100.0**

The marked reduction in fire & engineering risks over the past two years has altered the business mix slightly, from a historical skew towards these high value, low retention risks. Accordingly, fire & engineering accounted for a lower 26% of total GWP in FY16 (FY15: 29%; FY14: 59%). Given that these lines provided significant margin impetus in the earlier years of the review period (a function of favourable loss ratios, coupled with healthy commission inflows from large cessions), the reduced business volumes have contributed to the softening in profitability metrics evidenced over the past two years. As such, with limited scope for short term growth, improved pricing of the existing portfolio (coupled with increased participation on strongly performing risks) is viewed to be a key factor to stabilise the net loss ratio over the next 12 months.

On a line of business basis, the aforementioned growth stunting factors largely manifested on fire & engineering (which shed 13% in premiums), miscellaneous (25%), life (17%) and accident (8%). Conversely, the 13% growth in motor premiums was largely attributable to the currency impact, with very little organic growth emanating from the market. The ontake of medical risks during FY15 has aided in propping up the premium base amidst a tough operating environment, with total GWP from this line amounting to a higher MZN519m in FY16 (FY15: MZN348m). GA Seguros receives a fee for administering this book and retains a very small portion of this risk for its net account. As such, the high claims frequency associated with medical is not expected to have a negative impact on earnings, while administration fees are likely to provide some margin uplift.

Net premium diversification

Table 4: Net premiums	FY15		FY16	
	MZN'm	%	MZN'm	%
Fire & engineering	102.6	9.4	90.5	8.1
Motor	368.8	33.8	416.0	37.2
Accident	177.6	16.3	165.3	14.8
Transport	24.5	2.2	28.7	2.6
Miscellaneous	153.1	14.0	175.6	15.7
Liability	62.9	5.8	68.0	6.1
Life	162.9	14.9	114.9	10.3
Medical	40.3	3.7	58.5	5.2
Total	**1,092.6**	**100.0**	**1,117.4**	**100.0**

GA Seguros has followed a consistent pattern of risk retention, in line with strategic objectives. As such, the net retention ratio registered at 45% in FY16, tracking close to the review period average of 44%.

Earnings capacity

Claims

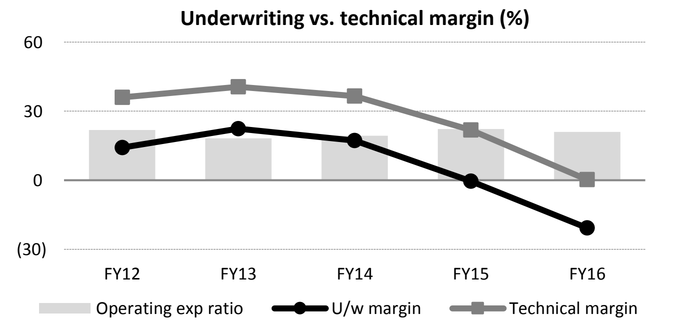
Table 5: Class performance (%)	Earned loss ratio		Net commission ratio		Technical margin	
	FY15	FY16	FY15	FY16	FY15	FY16
Fire & engineering	(6.1)	158.8	17.9	21.0	88.2	(79.8)
Motor	88.7	75.6	11.4	20.4	(0.0)	4.0
Accident	76.0	178.2	16.4	23.6	7.6	(101.8)
Transport	60.7	47.6	12.8	17.4	26.4	35.0
Miscellaneous	66.7	34.2	15.5	11.7	17.8	54.1
Liability	58.1	78.2	9.5	17.5	32.4	4.3
Life	61.1	40.2	11.7	(13.5)	27.3	73.3
Medical	9.7	9.6	(4.2)	4.4	94.4	86.0
Total	**65.4**	**84.4**	**12.8**	**15.3**	**21.8**	**0.2**

The reserve adjustment exercise carried out in FY16, in which an approximate USD3.4m in additional reserves were raised, was the primary component of the inflated claims experience. In this regard, claims increased by 47%, translating into a high claims ratio of 84% in FY16 (FY15: 65%). The most significant reserve adjustments were applied to fire & engineering and accident (through workmen's compensation), with both lines experiencing a notable increase in claims (FY16 claims ratio: 159% and 178% respectively).

Notwithstanding the atypical claims spike in FY16, GA Seguros has historically reported a favourable claims ratio, averaging 55% over the prior four year period. Going forward, this low level of claims is unlikely to be repeated, given the current inflationary environment and currency volatility. As such, the claims ratio is expected to register within a range of 65-70% over the medium term (commensurate with the FY15 level). Expected improvement in the claims experience from price remediation and higher quality of business is likely to be offset by reduced scale.

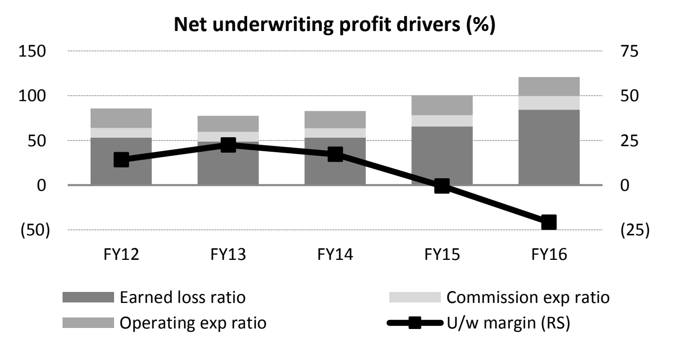
Total expenses

Successive GWP reduction, as well as inflationary and currency pressures in FY15 and FY16 saw the total expense ratio climb to 35% in FY15 (FY14: 30%), and further to a review period high of 36% in FY16. In response to the aforementioned factors, GA Seguros has actively been on a cost rationalisation exercise, in order to achieve a sustainable operating expense base in the face of contracting premium volumes. In this regard, there has been some success, with the operating expense ratio reducing slightly to 21% in FY16 (FY15: 22%). However, much of these savings were offset by an increasing net commission expense base. Subdued reinsurance commission inflows, particularly from the largely ceded fire & engineering business, as well as currency effects that pushed up the commission payables, contributed to the higher net commission expense ratio of 15% reported in FY16 (FY15: 13%). The uptick in the ratio over the last two years follows a fairly stable trend of 11% averaged over the prior three year period.



Cost rationalisation is expected to continue into FY17, with management indicating potential cost savings on group service fees and renewal of IT system contracts to the value of USD400,000. However, the elevated total expense ratio is expected to persist, and is budgeted at 40% for FY17.

Underwriting profitability



In view of the spike in claims, coupled with continued elevation in the expense base, the underwriting margin deteriorated to -21% in FY16 (FY15: -0.4%; prior four year average: 13%). The underwriting margin is expected to remain pressured over the short term, as constrained growth and ongoing claims and cost elevation (relative to historical levels) restrict underwriting profitability (underwriting margin forecast at -5% for FY17). A turnaround in economic activity, coupled with the materialisation of benefits from the implementation of management's current strategic objectives, may result in an improved underwriting result in the medium term.

Net profitability

On a positive note, higher interest rates in FY16 (on the back of a tightening monetary policy), coupled with the continued depreciation of the Metical, bolstered investment income. In this respect, realised investment income grew by a robust 78% to MZN72m, while foreign exchange gains increased to MZN135m in FY16 (FY15: MZN82m). This partially offset the poor underwriting performance, albeit not enough to prevent the insurer from reporting a net loss for the first time over the review period (MZN22m).

Going forward, top line pressure is likely to see underwriting results remain constricted, although the normalisation of the claims ratio may allow some profit generation, with the net result forecast to improve to MZN74m in FY17. However, prolonged margin depression may increase the rating's sensitivity to the earnings assessment, which is currently being upheld by a strong level of capital adequacy.

Table 6: Financial performance (MZN'm)	FY16		FY17	
	Actual	Budget	YTD*	Budget
NPE	**1,171.6**	**1,617.8**	**249.6**	**1,058.5**
Claims	(989.0)	(719.4)	(227.6)	(692.1)
Commission	(179.8)	(206.9)	39.4	(148.2)
Operating expenses	(245.6)	(372.1)	(166.1)	(275.4)
U/w result	**(242.8)**	**319.5**	**(104.8)**	**(57.2)**
Realised investment inc.	72.0	31.9	34.9	68.1
Unrealised investment inc.	20.5	0.0	0.0	0.0
Other income/(exp.)	134.9	0.0	21.8	98.0
Tax	(6.9)	(112.4)	15.3	(34.7)
NPAT	**(22.2)**	**238.9**	**(32.7)**	**74.1**
Other comprehensive inc.	0.0	0.0	0.0	0.0
Total comprehensive inc.	**(22.2)**	**238.9**	**(32.7)**	**74.1**
Dividend	0.0	0.0	0.0	0.0
Retained earnings	**(22.2)**	**238.9**	**(32.7)**	**74.1**
Key ratios (%)				
Earned loss ratio	84.4	44.5	91.2	65.4
Commission ratio	15.3	12.8	(15.8)	14.0
Operating expense ratio	21.0	23.0	66.5	26.0
U/w margin	(20.7)	19.7	(42.0)	(5.4)
Op. margin	(14.6)	21.7	(28.0)	1.0
RoR (gross)	(0.9)	6.3	(5.7)	3.3
RoR (net)	(2.0)	14.1	(12.7)	6.7

*Four months to April 2017

Note: BGT 17 translated using an exchange rate of MZN70.91/USD and YTD17 has been translated using an average exchange rate of MZN70.94/USD.

Reinsurance

Reinsurance counterparties

The lead reinsurer across most of the programme is Munich Re of Africa, and it also includes Swiss Re, Hannover Re Africa, Partner Re, SCOR Africa Ltd, Everest Re, Transatlantic Re (USA), Africa Re, Odyssey Re and Caisse Centrale de Reassurance (France). Reinsurance counterparties reflect a strong aggregated level of credit quality. A number of additional reinsurers take up smaller lines. Treaties are priced in both Rand and USD, with exchange rates set (mitigating foreign exchange risk on deductibles and capacity).

Reinsurance structure

The structure of the reinsurance programme for 2017 is relatively unchanged from the previous year. In addition to the general account XOL treaty, three other XOL treaties enable Absa Underwriting Managers to underwrite specific risks in Mozambique. These treaties are extensions of the general account XOL, providing additional capacity, albeit subject to a maximum net retention per risk or event of USD250,000 (or 2.3% of FY16 capital). In terms of the life division, an XOL policy provides cover in the event of catastrophic losses, subject to a net retention of USD150,000.

Reinsurance account result

Table 7: Reinsurance result (MZN'm)	FY14	FY15	FY16
Premium ceded	(1,692.8)	(1,419.5)	(1,342.4)
Commissions received	67.9	35.4	64.7
Claims recovered	(45.3)	200.9	709.2
Net cash result	**(1,670.2)**	**(1,183.2)**	**(568.5)**
Ratios (%)			
RI loss ratio	(2.7)	14.2	52.8
RI comm. ratio	4.0	2.5	4.8
RI tech margin	98.7	83.4	42.3

The reinsurance programme has evidenced strong historical profitability, underpinned by the low quantum of high severity losses over the years. On the back of reserve adjustments, coupled with rising claims, claims recovered increased to MZN709m in FY16 (FY15: MZN201m). Accordingly, there was some moderation on the technical account, albeit still registering at a high 42%.

Asset management

Table 8: Investments	FY15		FY16	
	MZN'm	%	MZN'm	%
Cash on hand	295.1	25.0	345.9	23.7
Short term deposits	349.3	29.6	789.0	54.0
Government bonds	235.0	19.9	83.5	5.7
Cash and equivalents	***879.4***	***74.4***	***1,218.3***	***83.4***
Interest securities	111.6	9.4	120.0	8.2
Investment property	190.4	16.1	122.8	8.4
Non-cash investments	***302.0***	***25.6***	***242.8***	***16.6***
Total investments	**1,181.4**	**100.0**	**1,461.2**	**100.0**

Cash and liquidity

Liquidity is viewed to be strong, supported by a sizeable investment portfolio (FY16: MZN1.5bn) that is largely weighted towards cash and equivalents (FY16: 83%). The reserving exercise undertaken in FY16 saw a slight reduction in key liquidity metrics, with cash coverage of technical provisions lowering to 1.6x (FY15: 2.3x). This notwithstanding, liquidity metrics are expected to remain at strong levels, underpinned by a consistent investment strategy and a normalising claims experience.

Banking counterparty exposure

The investment strategy has been formalised in line with Absa group policy. In this regard, the insurer must spread liquid assets across a minimum of five counterparties, all of which must reflect strong credit ratings or have a strongly rated parent. Additionally, exposure to a single counterparty is capped at 30% of total assets. As at FY16, cash holdings were fairly well spread among various banking counterparties, with the largest exposure being placed with BCI Fomento (at 23%). Going forward, management does not foresee any changes to the asset allocation strategy.

Financial assets

Financial assets comprise of interest securities (corporate bonds) to the value of MZN120m, and investment property, which was reported at a lower MZN123m at FY16 (FY15: MZN190m). The investment property portfolio consists of two properties, with the rented out portion of the insurer's head office in Maputo making up the bulk of this amount (FY16: MZN106m). The reduction in the value of investment property in FY16 was due to the reclassification of part of the head office as fixed assets, as the insurer utilised one floor of the building for its own use (previously this space was fully let). Management indicated that the reclassification has reversed in FY17, as the office space will once again be fully leased.

Premium debtors

Following industry wide premium collection challenges evidenced in FY15 and FY16, GA Seguros reported an improvement in the debtors book by the end of the year. To this end, premium receivables retreated to MZN187m (FY15: MZN530m), with average debtors days reducing to 53 days at FY16 (FY15: 70 days). Although the improvement in debtors collection is noted, ongoing economic strain is likely to require continuous debtor management, in view of premium collection challenges observed in the industry. In the absence of regulatory enforcement, management continue to interact with its major brokerage clients in an effort to limit the impact of non-payment.

Capitalisation

Capital adequacy

Table 9: Capitalisation (MZN'm)	FY16		FY17	
	Actual	Budget	YTD*	Budget
NPE	1,171.6	1,617.8	249.6	1,058.5
Retained earnings	(22.2)	238.9	(32.7)	74.1
Total capital	*787.2*	1,240.7	*792.7*	*861.3*
Key ratio (%)				
Solvency**	70.4	73.2	103.0	78.1

*Four months to April 2017

**Year to date results annualised.

Note: BGT17 translated using an exchange rate of MZN70.91/USD and YTD17 has been translated using an average exchange rate of MZN70.94/USD.

Despite the weakening in earnings, capital strength continued to be supported by the large capital buffer built up over the review period, which is viewed to cater for the current depressed earnings cycle. The slight erosion of capital in FY16 was offset by a lower quantum of underwriting exposure, leaving risk adjusted capitalisation unchanged at a strong level. Although limited capital build is projected over the short term, strong risk adjusted capitalisation is expected to be maintained amidst ongoing scaling down of the net risk base, with the international solvency margin budgeted at a higher 78% for FY17.

On statutory basis, the statutory solvency margin improved to 3.4x, from 1.2x previously, tracking comfortably above the minimum requirement of 1x coverage.

Reserving

Based on the insurer's internal actuarial assessment conducted in March 2016, the IBNR and OCR technical liabilities were found to be under reserved by approximately USD3.4m. As such, GA Seguros began correcting the technical reserve account by gradually increasing provisions throughout the year. As a result, the net OCR & IBNR provisions equated to a higher 59% in FY16 (FY15: 19%).

Global Alliance Seguros, S.A.

(MZN in millions except as noted)

Year ended: 31 December		2012	2013	2014	2015	2016
Income Statement						
Gross written premium (GWP)		1,409.0	1,982.8	2,669.6	2,512.2	2,459.8
Reinsurance premiums		(744.4)	(1,037.5)	(1,692.8)	(1,419.5)	(1,342.4)
Net written premium (NWP)		**664.7**	**945.3**	**976.8**	**1,092.6**	**1,117.4**
(Increase) / Decrease in insurance funds		(7.0)	(81.3)	(43.3)	(68.0)	54.2
Net premiums earned		**657.6**	**864.0**	**933.5**	**1,024.7**	**1,171.6**
Net claims incurred		(348.9)	(420.5)	(496.2)	(670.6)	(989.0)
Net commission expenses		(71.7)	(92.8)	(96.3)	(131.0)	(179.8)
Operating expenses		(143.6)	(157.2)	(180.5)	(227.4)	(245.6)
Underwriting profit / (loss)		**93.5**	**193.5**	**160.5**	**(4.3)**	**(242.8)**
Realised investment income		8.5	10.1	14.0	40.5	72.0
Unrealised investment income		2.1	15.1	19.2	72.4	20.5
Other income / (expenses)		13.4	(45.3)	37.1	81.6	134.9
Taxation		(38.3)	(57.1)	(74.5)	(86.4)	(6.9)
Net income after tax		**79.3**	**116.4**	**156.3**	**103.8**	**(22.2)**
Other comprehensive income		21.1	3.5	0.0	0.0	0.0
Retained surplus / (deficit)		**100.4**	**119.8**	**156.3**	**103.8**	**(22.2)**
Dividends in respect of financial year		0.0	0.0	0.0	0.0	0.0
Balance Sheet						
Total capital		**330.1**	**449.9**	**705.7**	**809.4**	**787.2**
Net UPR		94.8	174.8	210.0	173.0	158.3
Net OCR & IBNR		97.0	113.3	144.3	203.6	661.5
Other liabilities		207.4	515.8	547.6	757.2	595.9
Total capital & liabilities		**729.2**	**1,253.8**	**1,607.6**	**1,943.3**	**2,203.0**
Fixed assets		116.6	114.9	111.5	108.2	191.1
Investments		89.3	99.7	118.0	302.0	242.8
Cash and equivalents		357.5	484.0	805.7	879.4	1,218.3
Other current assets		165.7	555.2	572.4	653.7	550.7
Total assets		**729.2**	**1,253.8**	**1,607.6**	**1,943.3**	**2,203.0**
Cash Flow Statement						
Cash generated by operations		130.2	147.5	129.4	123.5	486.6
Cash flow from investment income		0.0	0.0	0.0	0.0	72.6
Working capital decrease / (increase)		3.7	(34.5)	2.3	90.1	38.0
Tax paid		0.0	0.0	0.0	0.0	0.0
Cash available from operating activities		**133.8**	**113.0**	**131.8**	**213.6**	**597.2**
Dividends paid		0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities		**133.8**	**113.0**	**131.8**	**213.6**	**597.2**
Cash flow from investing activities		**0.6**	**13.5**	**9.7**	**(77.5)**	**(14.9)**
Cash flow from financing activities		**42.5**	**0.0**	**99.6**	**0.0**	**0.0**
Net cash inflow / (outflow)		**176.9**	**126.5**	**241.0**	**136.1**	**582.2**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	49.7	47.6	72.3	74.1	70.4
Net UPR / NWP	%	14.3	18.5	21.5	15.8	14.2
Net OCR & IBNR / NWP	%	14.6	12.0	14.8	18.6	59.2
Claims cash coverage	months	12.3	13.8	19.5	15.7	14.8
Cash / Technical liabilities	x	1.9	1.7	2.3	2.3	1.6
Efficiency / Growth						
GWP growth	%	32.9	40.7	34.6	(5.9)	(2.1)
Retention rate	%	47.2	47.7	36.6	43.5	45.4
Earned loss ratio	%	53.0	48.7	53.2	65.4	84.4
Commissions / Earned premiums	%	10.9	10.7	10.3	12.8	15.3
Operating expenses / Earned premiums	%	21.8	18.2	19.3	22.2	21.0
Underwriting result / Earned premium	%	14.2	22.4	17.2	(0.4)	(20.7)
Combined ratio	%	85.8	77.6	82.8	100.4	120.7
Operating margin	%	15.5	23.6	18.7	3.5	(14.6)
Profitability						
Investment yield (excluding unrealised gains / losses)	%	2.3	2.0	1.9	3.8	5.5
Investment yield (including unrealised gains / losses)	%	8.5	5.6	4.4	10.7	7.0
ROaE (excluding unrealised gains / losses)	%	29.8	26.0	23.7	4.1	(5.3)
ROaE (including unrealised gains / losses)	%	38.8	30.7	27.0	13.7	(2.8)
Dividend cover	x	n.a.	n.a.	n.a.	n.a.	n.a.

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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.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Branch Offices	Offices established in various areas for product distribution.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cede	To transfer all or part of a risk written by an insurer (the cedant or primary company) to a reinsurer.
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.
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.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
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.
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.
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.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
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.
International Solvency Margin	Measures the ability to cover current year's written premiums using shareholder's funds.
Intermediary	A third party in the sale and administration of insurance products.
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.
Lead Reinsurer	The reinsurer who negotiates the terms, conditions, and premium rates and first signs on to the slip. Reinsurers who subsequently sign on to the slip under those terms and conditions are considered following reinsurers.
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.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Loss	The happening of the event for which insurance pays.
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.
Operating Expense Ratio	Measures the proportion of operating expenses in net premiums earned.
Outstanding Premiums	Premiums due but not yet collected. Also referred to as premium debtors or premium receivables.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
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.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
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.
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.
Retention Rate	The net amount of risk the ceding company keeps for its own account as a percentage of GWP.
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.
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.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

For a detailed glossary of terms please click here

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.

Global Alliance Seguros, S.A. 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 Global Alliance Seguros, S.A. with no contestation of the rating.

The information received from Global Alliance Seguros, S.A. and other reliable third parties to accord the credit rating included:

- The audited financial statements to 31 December 2016
- Four 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.