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Global Alliance Seguros

Mozambique Insurance Analysis **June 2015**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-(MZ)	Stable	June 2016

Financial data:

(USD'm comparative)

	31/12/13	31/12/14
MZM/USD (avg.)	29.90	31.20
MZM/USD (close)	30.00	33.20
Total assets	41.8	48.4
Total capital	15.0	21.3
Cash & equiv.	16.1	24.3
GWP	66.3	85.6
U/w result	6.5	5.1
NPAT	3.9	5.0
Op. cash flow	3.8	4.2
Market cap.		n.a.
Market share*		25 to 30%*

*Based on estimated industry GWP for 2014.

Rating history:

Initial rating (November 2002)
Claims paying ability: BBB+(MZ)
Rating outlook: Stable

Last rating (August 2014)
Claims paying ability: AA-(MZ)
Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Insurance Companies, Updated July 2014

Criteria for Rating Assurance Companies, Updated July 2014

GA Seguros rating reports, 2002 – 2014

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Summary rating rationale

- Global Alliance Seguros ("GA Seguros") reflects a very strong business profile, underpinned by a market leading position in the short term insurance arena. This is supported by strong branding, and a high level of client support and broker acceptance.
- Capital adequacy is viewed to be strong, with the international solvency margin improving to 72% at FYE14. Strong solvency is expected to persist going forward, underpinned by continued high capital generation, coupled with containment of the quantum of underwriting risk. Capital management is expected to align with Solvency Assessment and Management through the Absa group, facilitating an enhanced level of GA Seguros' risk-based capital management.
- Liquidity metrics rose to very strong levels in FY14, with claims cash coverage having consistently strengthened over the review period. Cash covered technical liabilities by a very strong 2.3x at FYE14 (FYE13: 1.7x). Liquidity metrics are expected to remain at strong levels over the medium term.
- Earnings capacity has been measured at robust levels, with GA Seguros reporting double digit underwriting margins throughout the review period. Profitability stems from high stability and containment of both claims and expenses. Very strong RoE (FY14: 27%) is expected to persist, complemented by a 100% profit retention strategy.
- The reinsurance program reflects strong counterparties, with the maximum net retentions per risk and event on XOL limited to a very low 1.2% of FYE14 capital.
- GA Seguros' rating is further reinforced by the implicit shareholder support provided by the Absa group (a subsidiary of Barclays Bank Plc (UK)). 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 provided continued financial support over the review period.

Factors that could trigger a rating action may include

Positive change: GA Seguros' rating currently matches the national scale ceiling applicable to entities operating within the Mozambican insurance industry. Accordingly, an upgrade of the rating could potentially follow a strengthening of key industry factors. Further, given that the rating recognises the Absa group shareholding and previously demonstrated capital support, a further upgrade that pierces the industry ceiling is considered unlikely in the absence of an explicit holding company guarantee.

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 a negative rating action.

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Operating environment

Economic overview

In 2013 real GDP grew by a robust 7%, albeit lower than expected due to severe floods early in the year. The main drivers of growth are foreign direct investment (focused mostly on the extractive sector), and increasing public expenditure. Growth in mining & energy was underpinned by a boost in coal exports, while the financial sector benefitted from credit expansion and increased income, mostly centred on urban areas. Other dynamic sectors are construction, services, and transport & communication, which are broadly correlated with infrastructure development and large-scale projects, known in Mozambique as mega-projects. The agriculture sector (employing 70% of the population), however, lacks the same economic dynamism. The progressive increase in coal production and the undertaking of substantial infrastructure projects, coupled with budgetary expansion, are expected to drive future economic advancement, with GDP growth of 8.3% and 7.9% forecast for 2014 and 2015 respectively. This will position Mozambique as one of the fastest growing economies on the African continent.

Mozambique's inflationary environment has been well controlled over recent years, with CPI measuring 2.2% and 4.3% in 2012 and 2013 respectively. For 2014, inflation is expected to have edged-up slightly to 5.6%, driven primarily by rising food prices. The standing lending facility rate (the benchmark interest rate of choice overseen by the Central Bank of Mozambique) was unchanged at 8.25% for most of 2014, before the rate was adjusted down to 7.5% in 4Q 2014 (to balance the low prevailing inflationary environment). For the first 10 weeks of 2015, the rate was left unchanged at the year-end 2014 level.

Having displayed relative stability against the USD for the nine months to September 2014, the Mozambique Metical weakened notably in the 4Q 2014, to close the year at USD33.2/MZM (31 December 2013: USD29.9/MZM). This translated to an average 2014 exchange rate of USD31.2/MZM (2013: USD29.9/MZM). For the first 10 weeks of 2015 the Metical remained relatively soft against a burgeoning USD, registering at a weaker USD34.1/MZM at 10 March 2015.

The domestic financial environment is considered underdeveloped. Reflective of this, the local bourse comprises a very limited number of listings (4 at year-end 2014), thus limiting commercial investments to cash holdings, unlisted shareholdings or property investments.

Insurance industry overview

Insurance activities in Mozambique are regulated by the Mozambican Institute of Insurance Supervision (Instituto de Supervisão dos Seguros de Moçambique, or "ISSM"), which was established in July 2010. Its predecessor was Inspecao Geral de Seguros ("IGS").

Regulatory oversight manifests mainly via the enforcement of a minimum statutory solvency ratio (*see capitalisation section*) and a minimum capital requirement, which are stipulated in relation to the nature of insurance activities undertaken. In this regard, short term and life insurance businesses are required to reflect a minimum level of capitalisation (including retained earnings) of MZM33m and MZM67m respectively, whilst a composite insurance licence remains subject to a minimum capital level of MZM100m (approximately USD3m at year-end 2014). Besides other complementary governing initiatives (pertaining of late to fronting arrangements and the encouragement of local participation on large scale oil exploration and infrastructure risks), insurance activities are conducted relatively free of regulatory intervention. Coupled with relatively lenient incorporation and ownership requirements (with no local shareholding currently mandated), this translates to very low barriers of entry. Given the attractive risk mix in the underlying market, this gives rise to a potential strong influx of new entrants into the industry and a subsequent increase in market competiveness over the medium term.

Table 1: Key industry data	
Regulatory authority:	ISSM
Min. capital req. (non-life; reinsurance):	MZM33m
Min. capital req. (life):	MZM67m
Min. capital req. (composite):	MZM100m
# of registered non-life insurers:	12
# of registered life assurers:	7
Market share top 5 non-life:	91%
Market share top 5 life:	99%
Non-life industry GWP 2013:	MZM6.1bn
Life industry GWP 2013:	MZM0.9bn
Insurance penetration (% of GDP):	1.5%

Supported by the discovery of large offshore oil & gas reserves, associated engineering and construction risks have gained notably in prominence in recent years. However, given the limited capacity amongst domestic insurers relative to the size of risks underwritten, the bulk of these risks flow to the international market (via multinational brokerages operating in the country and their affiliated global risk structures). Domestic insurance risks are dominated by property, motor 3rd party liability and workman's compensation, with demand for cover for the latter two supported by their compulsory nature. This notwithstanding, market feedback is that enforcement of compulsory insurance products remains limited. Similar to the underlying insurance industry, the broker market is largely unregulated, with commissions negotiated directly between the transacting parties.

Underpinned by a number of mega projects coming on stream, total industry GWP advanced by a robust 31% to MZM7bn (or USD237m) in 2013, of which a stable 87% share pertained to short term risks. Note is, however, taken that industry growth continues to emanate off a relatively low base, with the domestic insurance market remaining relatively small when compared to other regional jurisdictions (i.e. Kenya at USD1.5bn). Nonetheless, insurance penetration remains reasonable in the African context (at 1.5% of GDP in 2013).

In view of the above, the number of insurers operating in Mozambique has increased considerably over the review period, with the 19 operating companies nearly having trebled against the corresponding figure at the start of the review period. More specifically, the industry displays a two tier structure, with notable concentration towards the 4 largest players evidenced (combined: 90% of market share). Global Alliance Seguros, S.A. ("G.A Seguros") accounts for roughly 26% of consolidated industry gross premiums, followed by Segudora Internaciaonal de Moçambique, S.A (25%), Empresa Mocambicana de Seguros S.A. (21%) and Hollard Mocambique Companhia de Seguros (15%). In the short-term arena GA Seguros represented 28% of gross written premiums in 2013, followed closely by SIM and EMOSE (at 23% and 20% respectively). The life segment of the market is contested by seven players and is dominated by SIM, with a market share in excess of 40% (GA Seguros: 14%).

Corporate profile

Corporate history
GA Seguros was incorporated in 1993, and has rapidly grown to one of the leading insurance companies operating in Mozambique. The insurer's head office is situated in Maputo, employing 91 staff (12 in the life division), with four branch offices providing support. The company has a composite license 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 (now known as Barclays Africa Group Limited following the corporate transaction with Barclays' African Operations in 2013), with its ultimate holding company being Barclays Bank Plc (UK) (62.3% shareholding). In view of GA Seguros' strong brand in the domestic market, Absa chose to retain its name. The transaction forms part of the greater Barclays Africa Group Limited's African Bancassurance Expansion Programme into countries in which it or Barclays Bank Plc (UK) has a presence.

Risk management framework
GA Seguros' risk management and governance framework has been aligned with the Absa group and Barclays Bank Plc (UK) risk philosophy and methodologies. The framework is managed through a quarterly Capital Investment & Underwriting Committee and Risk Governance & Control Committee. Furthermore, monthly EXCO meetings are held, while GA Seguros has access to Absa insurance and reinsurance expertise when required.

Financial reporting
The 2014 financial statements were audited by PricewaterhouseCoopers, Lda, with an unqualified opinion issued.

Competitive positioning

Market position
GA Seguros reflects a very strong business profile, underpinned by the leading position in the short term insurance arena. The insurer reflects as estimated market share of between 25% and 30%. This is supported by strong branding, and a high level of client support and broker acceptance. Going forward, as a means of defending existing market share, management will continue to leverage of franchise value, while increasing efforts towards improving service levels offered to clients and reducing the turnaround time for the finalisation on claims payment.

Earnings diversification

Market segment diversification
The corporate market segment dominated the business mix, comprising 70% of GWP in FY14. This is a function of the long standing relationships that GA Seguros has with large multinational companies, and the participation thereon in vast megaprojects being undertaken across the country. With respect to the latter, there were major oil and gas exploration projects undertaken in Mozambique in FY14, which accounted for an estimated additional USD100m of gross industry premiums in the period. GA Seguros' share of these premiums were approximately USD25m. Risk retention on the projects for GA Seguros' net account is minimal, with the insurer benefitting from administration fees charged to the ultimate reinsurers (representing a source of low risk fee income). Going forward, GA Seguros' growth strategy will continue to target expansion into the corporate segment, as well as participation on the megaprojects.

GA Seguros launched its life division (Vida) in FY10, initially focusing on group and credit life. The life product offering has subsequently been expanded to include investment products, employee benefits, income replacement and funeral policies, all of which are still in infancy stages in Mozambique (thereby offering significant growth potential). At the beginning of FY15, the individual credit life business was discontinued, with the company focussing its efforts on the group credit life and pension fund market segments.

Distribution channels
GA Seguros currently has a 85%/12% split between short term ("ST") and long term ("LT") business, with the remaining 3% comprising bancassurance. Approximately 80% of both LT and ST premiums are derived via brokers, with the remaining 20% sourced through direct channels. Over the medium term, management intends increasing its exposure to the LT business, with a 60%/40% split between ST and LT business being targeted. The bancassurance channel is facilitated by GA Seguros' affiliation with Barclays Bank Mozambique S.A ("Barclays Mozambique"). However, with Barclays Mozambique struggling to retain market share in the industry, the insurance products offered by the bank are considered to be ancillary products. This notwithstanding, GA Seguros will continue to pursue penetration into the banks' book of business.

Gross premium diversification

Gross written premiums grew by 35% to MZM2.7bn in FY14, outperforming budget projections of MZM1.7bn. Much of this growth stemmed from the insurer's participation in the aforementioned oil and gas exploration projects. In this regard, gross premiums were positively impacted by the on-take of three large contracts, totalling approximately USD25m (MZM780m) in FY14, with a further USD10m derived from another single large contract. Consequently, fire & engineering continued to dominate the product mix, increasing by 79% to MZM1.6bn in FY14 (FY13: MZM0.9bn), and comprising a higher 59% of the total portfolio.

Table 2: Gross premiums	FY13		FY14	
	MZM'm	%	MZM'm	%
Fire & engineering	880.9	44.4	1,578.4	59.1
Motor	404.0	20.4	459.2	17.2
Accident	156.8	7.9	233.6	8.8
Transport	84.7	4.3	73.2	2.7
Miscellaneous	23.7	1.2	31.9	1.2
Liability	300.9	15.2	130.3	4.9
Life	131.8	6.6	163.0	6.1
Total	**1,982.8**	**100.0**	**2,669.6**	**100.0**

Note is taken of the growth in the motor book, which has stemmed from the high demand in imports and second hand Japanese vehicles. Motor evidenced year on year ("YoY") growth of 14%, accounting for MZM459m of the gross book in FY14. Accordingly, motor represented the second largest line of business, albeit, moderating to 17% of total GWP for the period (FY13: 20%). Accident represented the insurer's third largest line of business, increasing by 49% to MZM234m in FY14. This product line is viewed as accommodation business, supplementing the larger corporate risks that the insurer underwrites. Life GWP rose to MZM163m in FY14 (FY13: MZM132m).

Net premium diversification

Table 3: Net premiums	FY13		FY14	
	MZM'm	%	MZM'm	%
Fire & engineering	134.6	14.2	190.3	19.5
Motor	385.2	40.7	451.2	46.2
Accident	149.0	15.8	171.5	17.6
Transport	25.1	2.7	22.4	2.3
Miscellaneous	21.5	2.3	23.9	2.4
Liability	135.6	14.3	19.0	1.9
Life	94.4	10.0	98.5	10.1
Total	**945.3**	**100.0**	**976.8**	**100.0**

The premium retention rate amounted to 37% in FY14 (FY13: 48%), below budget of 51%, given the higher component of heavily reinsured risks. Accordingly, NWP was recorded at a higher 3% in FY14, ahead of initial forecasts. With GA Seguros retaining the bulk of motor premiums, this class represented the dominant portion of net premiums in FY14. Fire & engineering constitute the second largest contributor to NWP. Given the potentially high value in claims, GA Seguros adopts a conservative approach to these risks. This was followed closely by accident, contributing 18% of NWP for the period.

Profitability

Loss ratio analysis

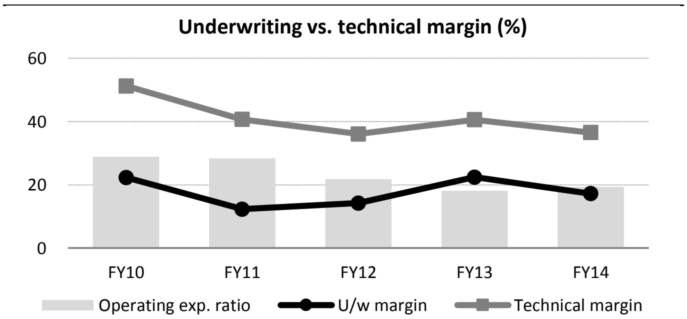
The overall claims ratio increased by five percentage points to 53% in FY14. The claims experience was primarily driven by accident, which reported a loss ratio of 97% in FY14 (FY13: 40%). This was attributed to the higher value of claims on medical treatment and evacuation costs pertaining to ex-pat employees. Additionally, the claims paid on these products are directly related to the salaries of the individuals, which tend to be higher compared to the local market salaried employees. The low level of rates charged on workman's compensation (within the accident line of business) continues to be a key factor impacting the product line, with the rates currently set at 0.2%. Management feel that a rate of 0.5% would be more sustainable over the medium term.

Table 4: Class performance (%)	Earned loss ratio		Net commission ratio		Technical margin	
	FY13	FY14	FY13	FY14	FY13	FY14
Fire & engineering	29.0	28.3	9.1	6.5	62.0	65.2
Motor	71.8	58.3	13.5	10.2	14.7	31.6
Accident	39.5	97.4	11.5	15.4	49.0	(12.8)
Transport	18.5	25.0	6.8	11.6	74.7	63.5
Miscellaneous	33.9	45.8	28.4	14.6	37.7	39.7
Liability	11.8	5.5	(4.7)	(6.8)	92.8	101.3
Life	41.1	27.4	9.6	15.8	49.3	56.8
Total	**48.7**	**53.2**	**10.7**	**10.3**	**40.6**	**36.5**

Motor continues to remain profitable, exhibiting a favourable loss ratio of 58% in FY14. Owing to the aforementioned growth in the motor book, the price of spare parts on second hand and Japanese vehicles has increased, resulting in the cost of repairs often exceeding the value of the vehicle (for particular models), and subsequently the number of write-offs has risen during the financial cycle. In this regard, management have implemented corrective measures, which would limit their exposure to motor risks where spare parts are not readily available. This would see the company mainly underwriting risks on mainstream vehicle brands.

Technical profitability

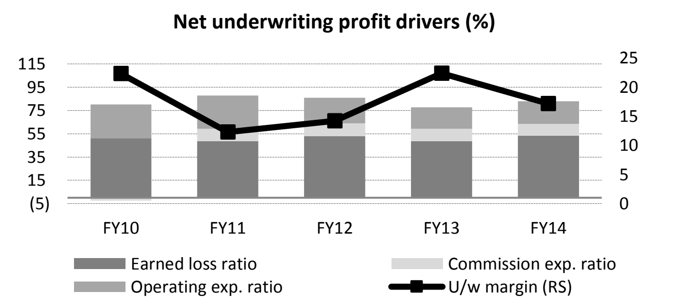
The insurer has registered a high level of stability within the technical account, contributing favourably to GCR's view of earnings capacity. In this regard, a degree of consistency in the loss ratio (FY14: 53%; FY13: 49%) and net commission ratio (FY14: 10%; FY13: 11%) has facilitated strong technical margins over the review period (FY14: 37%; FY13: 41%), albeit softening.



Expense analysis

Operating expenses continued to be well contained in FY14, amounting to MZM181m (FY13: MZM157m). Against an 8% rise in NPE, the expense ratio remained relatively stable at 19% (FY13: 18%). The bulk of the cost base pertains to salaries and bonuses. Relative to GWP, operating expenses reduced marginally to 7% from 8% previously.

Underwriting profitability



GA Seguros reported strong underwriting profits of MZM161m, translating to a 17% underwriting margin for FY14 (budget: 19%; FY13: 22%). This represents the fifth consecutive double digit underwriting margin increase.

Table 5: Financial performance (MZM'm)	FY14		FY15	
	Actual	Budget	Actual*	Budget
GWP	2,669.6	1,679.0	636.2	1,749.8
NWP	976.8	863.5	339.8	814.6
NPE	**933.5**	**814.3**	**281.1**	**815.6**
Claims	(496.2)	(405.4)	(178.9)	(405.6)
Commission	(96.3)	(33.6)	9.3	57.2
Operating expenses	(180.5)	(217.8)	(84.5)	(233.3)
U/w result	**160.5**	**157.4**	**27.0**	**233.9**
Investment income	14.0	5.8	12.5	11.0
Unrealised movements	19.2	0.0	0.0	0.0
Other income/(exp.)	37.1	0.0	55.6	0.0
Tax	(74.5)	(73.8)	(27.1)	(78.4)
NPAT	**156.3**	**89.4**	**68.0**	**166.6**
Other comp. income	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0
Retained earnings	**156.3**	**89.4**	**68.0**	**166.6**
Capital	*705.7*	*545.6*	*769.2*	*863.7*
Key ratios (%)				
GWP growth**	34.6	(15.3)	(28.5)	(34.5)
Retention	36.6	51.4	53.4	46.6
Earned loss ratio	53.2	49.8	63.6	49.7
Commission ratio	10.3	4.1	(3.3)	(7.0)
Operating expense ratio	19.3	26.7	30.1	28.6
U/w margin	17.2	19.3	9.6	28.7
Op. margin	18.7	20.0	14.0	30.0
RoR (gross)	5.8	5.3	10.7	9.5
RoR (net)	16.0	10.4	20.0	20.5
Solvency**	72.3	63.2	75.5	106.0

*4 months to April 2015.

**Annualised for year to date results.

Note: Budget translated using an exchange rate of MZM30/USD in FY14, and MZM30.7/USD in F15 and Ytd15 has been translated using an exchange rate of MZM34.4/USD.

Net profitability

Investment income increased to MZM14m in FY14, and comprised primarily of interest and rental income. The bulk of liquid funds have historically been held in USD, which derives nominal interest in Mozambican banks. This has served to constrain the investment yield, which was reported at a subdued 2% in FY14. Following a recent BoM ruling, however, companies are now required to convert foreign exchange deposits to local currency upon receipt. Accordingly, while investment returns are expected to improve, GA Seguros' operating performance will become increasingly susceptible to exchange rate volatility upon conversion.

Unrealised investment income followed a similar path, increasing by MZM4m to MZM19m in FY14 (FY13: MZM15m). After accounting for other income of MZM37m and a MZM75m taxation charge, net after tax profits were reported at a higher MZM156m, from MZM116m in FY13.

Prospective

The budget for 2015 was finalised in March 2014. This was prior to the materialisation of the large scale oil and gas projects (undertaken in the latter part of 2014), that resulted in additional premium generation in the 2014 financial cycle. Accordingly, the projections for 2015 are based on the results reported in FY13, which comprised the core business that GA Seguros participated in. Consequently, management are expecting the actual FY15 gross premiums to mirror the results observed in FY14. However, note is taken of the uncertainty that arose in the political climate of the country after the elections that were held towards the end of the year. This caused increased concern among foreign players in the market, with most of the drilling projects being temporarily suspended in the interim period. In this regard, and considering the large amounts of capital already spent on these projects, management believe that the drilling will resume during 2015, as investor confidence begins to return to the market. GA Seguros is expected to register a net commission receipt in FY15. This is due to an agreement entered into between GA Seguros and reinsurers, which will see GA Seguros fronting business on behalf of the respective reinsurer's. GA Seguros will retain a small percentage of the premiums (0.05% of USD amount), and charge an additional 3% - 5% admin fee on total premium.

New developments pertain to the proposal to create a pool of funds to insure the risks associated with the mega projects. This will be done through an insurance association/co-insurance program, which will see retained capacity allocations (approximately USD2m for entire market) linked to capital, with the remainder being ceded to a reinsurer. In this regard, discussions are expected to be finalised within the next three months.

Reinsurance

Reinsurance counterparties

The lead reinsurer across most of the programme is Munich Re of Africa, and 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 Rands and USD, with exchange rates set (mitigating forex fluctuations risk on deductibles and capacity).

Reinsurance structure

The structure of the reinsurance programme for 2015 is relatively unchanged from the previous year. In addition to the general account XOL treaty, an additional three 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 1.2% of FYE14 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.

Table 6: Reinsurance 2015	Retention	Capacity
Excess of loss (layers)		
General account (2)*	USD250,000	USD4m
Fire & allied perils CAT (6)**	R20m	R3,000m
Motor, acc., liab, eng EML & CAT (3)**	R3m	R20m
Risk CAT**	R5m	R25m
Surplus (lines)		
Compulsory surplus (20)#	USD35m	USD140m

*Fire & allied perils, CAR/EAR, marine, motor, misc, acc, liability.
**Specific to certain Underwriting Managers.
#All property, GIT, agriculture, business interruption/material damage.

Reinsurance account result

Premium cessions increased by 63% to MZM1.7bn in FY14, due to the influx of fire and engineering risks in the business mix. The claims incurred recovery in FY14 was distorted by sizeable technical provision reversals applicable to reinsurers (relating to previous years' provisioning). In the absence of this, the recovery trend has evidenced stability over the past three years.

Table 7: Reinsurance trade off (MZM'm)	FY12	FY13	FY14
Premium ceded	(744.4)	(1,037.5)	(1,692.8)
Commissions received	42.3	46.0	67.9
Claims recovered	233.1	298.3	(45.3)
Net transfer / (recovery)	**(469.0)**	**(693.2)**	**(1,670.2)**
% of capital	142.1	154.1	236.7

Asset management

Table 8: Investment portfolio	FYE13		FYE14	
	MZM'm	%	MZM'm	%
Cash & cash equivalents	**484.0**	**82.9**	**805.7**	**87.2**
Investment property	99.7	17.1	118.0	12.8
Other investments	**99.7**	**17.1**	**118.0**	**12.8**
Total investments	**583.7**	**100.0**	**923.7**	**100.0**
% of assets		46.6		57.5

Investment strategy

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 (which can be derived from the group rating). Additionally, exposure to a single counterparty is capped at 30% of total assets. Going forward, management does not foresee any changes to the asset allocation strategy.

Cash and liquidity

On the back of sound operating cash flows, cash holdings increased by 66% to MZM806m at FYE14. Cash continued to dominate the investment portfolio, representing 87% (FYE13: 83%), and covered capital by a sound 1.1x. Key liquidity ratios remained very strong, with claims cash coverage increasing to 20 months (FYE13: 14 months), while coverage of technical liabilities was reported at a very high 2.3x (FYE13: 1.7x). Cash holdings are mainly placed with Standard Bank, BCI Fomento and FNB.

Financial assets

Financial assets relate to GA Seguros' head office development in Maputo. The portion rented to third parties amounted to a higher MZM118m in FY14. The portfolio also includes a small residential property that is utilised as a guest house. Investment property as a percentage of total capital reduced to a manageable 17% (FYE13: 22%), contrasting the capital exposure carried earlier in the review period.

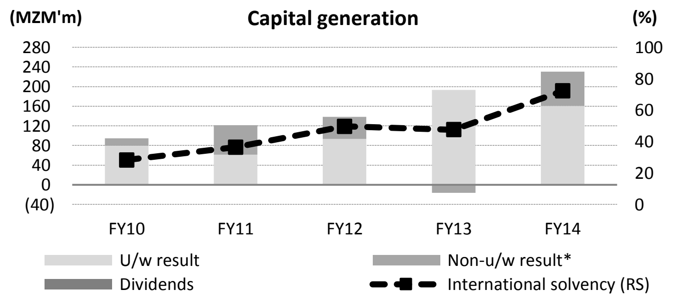
Premium debtors

Insurance receivables were well contained relative to GWP growth in FY14. This saw the average turnaround of debtors reported at 57 days in FY14 (FY13: 50 days). According to management, all insurance receivables fell within 180 days.

Solvency and reserving

Capital generation

Supported by robust retained earnings (FY14: MZM156m), as well as a capital injection of MZM99m, shareholders' interest advanced by 57% to MZM706m in FY14 (FY13: MZM450m). The capital management strategy is viewed to be sound, with management not expecting to pay any dividends over the next five year period.



*Investment & other income; inclusive of fair value movements.

International solvency margin

The international solvency margin improved in FYE14, registering at 72% (FYE13: 48%), above expectations (BY14: 63%). The solvency margin is expected to remain at strong levels over the short term, underpinned by continued high capital generation, coupled with containment of the quantum of underwriting risk. Going forward, it is expected that Absa group will utilise Solvency Assessment and Management ("SAM") as a basis for capital adequacy management across all entities within the insurance group. In GCR's view, this will facilitate an enhanced level of GA Seguros' risk-based capital management. The statutory solvency margin, lowered to 1.1x, from a high 2.1x, measuring slightly above the minimum requirement of 1x. This is due to the calculation of statutory solvency requirements, which includes gross premiums as an input.

Technical reserves

Net outstanding claims amounted to 15% of NWP in FY14 (FY13: 12%), reflective of the largely short tail motor and accident business that contributes to the bulk of the net premium base. The net UPR as a percentage of net written premiums increased to 22% in FY14, from 19% previously. The adequacy of claims reserves is tested annually by Absa's actuarial team.

Global Alliance Seguros

(MZM in millions except as noted)

Year ended: 31 December		2010	2011	2012	2013	2014
Income Statement						
Gross written premium (GWP)		814.3	1,060.4	1,409.0	1,982.8	2,669.6
Reinsurance premiums		(432.4)	(547.1)	(744.4)	(1,037.5)	(1,692.8)
Net written premium (NWP)		**381.9**	**513.3**	**664.7**	**945.3**	**976.8**
(Increase) / Decrease in insurance funds		(25.8)	(16.6)	(7.0)	(81.3)	(43.3)
Net premiums earned		**356.1**	**496.7**	**657.6**	**864.0**	**933.5**
Net claims incurred		(182.1)	(241.7)	(348.9)	(420.5)	(496.2)
Net commission expenses		8.4	(53.1)	(71.7)	(92.8)	(96.3)
Operating expenses		(102.9)	(140.8)	(143.6)	(157.2)	(180.5)
Underwriting profit / (loss)		**79.5**	**61.1**	**93.5**	**193.5**	**160.5**
Realised investment income		8.7	9.3	8.5	10.1	14.0
Unrealised investment income		(0.2)	3.6	2.1	15.1	19.2
Other income / (expenses)		6.3	52.3	13.4	(45.3)	37.1
Taxation		(32.0)	(41.8)	(38.3)	(57.1)	(74.5)
Net income after tax		**62.4**	**84.4**	**79.3**	**116.4**	**156.3**
Other comprehensive income		0.0	(5.0)	21.1	3.5	0.0
Retained surplus / (deficit)		**62.4**	**79.4**	**100.4**	**119.8**	**156.3**
Dividends in respect of financial year		0.0	0.0	0.0	0.0	0.0
Balance Sheet						
Total capital		**107.8**	**187.1**	**330.1**	**449.9**	**705.7**
Net UPR		61.4	81.0	94.8	174.8	210.0
Net OCR & IBNR		65.6	76.0	97.0	113.3	144.3
Other liabilities		209.9	203.0	207.4	515.8	547.6
Total capital & liabilities		**444.6**	**547.2**	**729.2**	**1,253.8**	**1,607.6**
Fixed assets		87.3	73.5	116.6	114.9	111.5
Investments		114.3	117.8	89.3	99.7	118.0
Cash and equivalents		145.4	180.6	357.5	484.0	805.7
Other current assets		97.6	175.2	165.7	555.2	572.4
Total assets		**444.6**	**547.2**	**729.2**	**1,253.8**	**1,607.6**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	28.2	36.5	49.7	47.6	72.3
Net UPR / NWP	%	16.1	15.8	14.3	18.5	21.5
Net OCR & IBNR / NWP	%	17.2	14.8	14.6	12.0	14.8
Claims cash coverage	months	9.6	9.0	12.3	13.8	19.5
Cash / Technical liabilities	x	1.1	1.1	1.9	1.7	2.3
Efficiency / Growth						
GWP growth	%	29.5	30.2	32.9	40.7	34.6
Retention rate	%	46.9	48.4	47.2	47.7	36.6
Earned loss ratio	%	51.1	48.7	53.0	48.7	53.2
Commissions / Earned premiums	%	(2.4)	10.7	10.9	10.7	10.3
Operating expenses / Earned premiums	%	28.9	28.4	21.8	18.2	19.3
Underwriting result / Earned premium	%	22.3	12.3	14.2	22.4	17.2
Combined ratio	%	77.7	87.7	85.8	77.6	82.8
Operating margin	%	24.8	14.2	15.5	23.6	18.7
Profitability						
Investment yield (excluding unrealised gains / losses)	%	3.3	3.3	2.3	2.0	1.9
Investment yield (including unrealised gains / losses)	%	3.2	4.6	2.8	4.9	4.4
ROaE (excluding unrealised gains / losses)	%	38.5	54.8	29.8	26.0	23.7
ROaE (including unrealised gains / losses)	%	38.4	57.2	30.7	29.8	27.0
Dividend cover	x	n.a.	n.a.	n.a.	n.a.	n.a.

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

Assets	The items on the balance sheet of the insurer which show the book value of property owned. Under regulations, not all property or other resources may be admitted in the statement of the insurer. This gives rise to the term 'non-admitted assets.'
Balance Sheet	An accounting term which refers to a listing of the assets, liabilities, and surplus of a company or individual as of a specific date.
Capacity	The largest amount of insurance or reinsurance available from a company. In a broader sense, it can refer to the largest amount of insurance or reinsurance available in the marketplace.
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 to agents and brokers.
Insurer	The party to the insurance contract whom promises to pay losses or benefits. Also, any corporation engaged primarily in the business of furnishing insurance to the public.
Interest	Money paid for the use of money.
Liquidity	The ability of an insurer to convert its assets into cash to pay claims if necessary.
Loss Ratio	The ratio of claims to premiums. It may be calculated in several different ways, using paid premiums or earned premiums, and using paid claims with or without changes in claim reserves and with or without changes in active life reserves.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance also called the policy contract or the contract.
Premium	The price of insurance protection for a specified risk for a specified period of time.
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	An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders.
Retention	The net amount of risk the ceding company keeps for its own account
Risk	Uncertainty as to the outcome of an event when two or more possibilities exist.
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.
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 utilised in this report 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.

GA Seguros participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit rating has been disclosed to GA Seguros 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:

- Audited financial results to 31 December 2014
- Four years of comparative numbers
- Unaudited interim results to 30 April 2015
- Budgeted financial statements for 2015
- Other related 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.