Global Alliance Seguros

Mozambique Insurance Analysis **August 2014**

Security class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	AA-(MZ)	Stable	June 2015

Financial data:

(US$'m Comparative)

	31/12/12	31/12/13
MZM/US$ (avg.)	27.93	28.09
MZM/US$ (close)	29.45	29.60
Total assets	24.8	36.2
Total capital	11.2	15.4
Cash & equiv.	12.1	16.3
GWP	50.4	66.4
U/w result	3.4	5.0
NPAT	2.4	4.6
Op. cash flow	4.7	3.9
Market cap.	n.a.	
Market share*	25%*	

*Based on estimated GWP at 31 December 2013.

Rating history:

Initial Rating (November 2002)

Claims paying ability: BBB+(MZ)

Rating outlook: Stable

Last Rating (May 2013)

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)

Global Alliance Seguros ("GA Seguros") previous reports, 2002 – 2013.

Glossary of Terms/Ratios (February 2014)

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Summary rating rationale

The rating is based on the following key factors:

- 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 viewed to be moderately strong, with the international solvency margin expected to rise to 63% in F14 (F13: 55%). On a risk-adjusted basis, capital strength is supported by the low level of product risk within the insurer's net premium base, and limited market risk in the investment portfolio. This is expected to persist going forward, given stability in the underwriting and investment strategies over the rating horizon.
- Liquidity has strengthened consistently over the past three years, and represents a key rating strength. Coverage of both technical provisions and average monthly claims have been catered for at conservative levels. The previously observed active reduction in exposure to risky assets has contributed favourably to the enhanced liquidity position. The quantum of liquid holdings is expected to be supported by healthy operational cash generation over the next 12 months.
- GA Seguros has recorded very high levels of underwriting profitability throughout the review period. Coupled with a full income retention strategy, this has resulted in cumulative retained earnings of MZM491m over the review period.
- The comprehensive reinsurance programme is negotiated at group level, and is led by highly rated counterparties. Maximum net retention per risk and event on 2014 XOL is unchanged at US$250,000 per risk and event (1.6% of FYE13 capital).
- GA Seguros' rating derives upliftment from implicit shareholder support. GA Seguros is a wholly owned subsidiary of the Absa Group, one of the largest banking groups in Africa, who is in turn a subsidiary of Barclays Bank Plc (UK), one of the world's largest banks. Key benefits of this relationship for the insurer include operational and technical support, penetration into the banking group's vast client base, and more recently financial backing in the form of a US$1.5m capital injection (in 2H F12).

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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Corporate profile

Country overview

In 2013 real GDP posted robust 7% growth, although lower than expected due to severe floods early in the year. The progressive increase in coal production and the implementation of large infrastructure projects, coupled with budgetary expansion, are expected to continue to drive growth, projected at 8.3% in 2014 and 8.2% in 2015.

The main drivers of growth are foreign direct investment (FDI), focused mostly on the extractive sector, and increasing public expenditure. The fastest growing sectors in 2013 were the extractive sector, propelled by a boost in coal exports, and the financial sector fuelled by credit expansion and increased income, mostly centred on urban areas. Other dynamic sectors are construction, services, and transport and communication, broadly correlated with infrastructure development and very large-scale projects, known in Mozambique as mega-projects. The agriculture sector, employing 70% of the population, lacks the same economic dynamism, although it is growing at above 4%.

Mozambique's inflationary environment has been very well controlled over the past two years (CPI increases in 2013 and 2012 of 4.2% and 2.1% respectively). This contrasts the high inflationary period in 2010 and 2011, and has primarily been a function of the Bank of Mozambique's ("BoM") tight monetary policy to curb rising prices. Money supply and credit extension to the economy were reined in in 2011, while a stronger exchange rate has helped constrain imported inflation. The low price increases have been sustained into 2012 annual inflation rate in Mozambique was recorded at 2.91% in May of 2014, almost unchanged from 2.87% in the previous month. A year earlier, the inflation rate was recorded at 4.9%. The Metical has evidenced relative stability over the past two years, closing at 29.6 MZM / USD at YE2013 (YE 2012: 29.5).

Insurance industry overview

Table 1: Key industry data	
Regulatory authority:	ISSM
Min. capital req. (non-life; reinsurance):	MZM33m
Min. capital req. (life):	MZM66m
# of registered non-life insurers:	14
Combined market share of top 5 insurers:	± 95%
Non-life industry GWP 2013:	± US$220m
Insurance penetration (% of GDP):	<1%

Regulatory environment

Insurance activities in Mozambique were previously regulated by the Inspector General of Insurance, on behalf of the Ministry of Planning and Finance. The newly created (as of December 2010) Mozambican Institute of Insurance Supervision (Instituto de Supervisão dos Seguros de Moçambique, or "ISSM") represents a shift in the regulatory framework, with a dedicated unit allowing for potential updating and enhancement of the legislative environment governing the industry. While the insurance market in Mozambique was liberalised in 1997, legislation governing the sector is largely outdated.

There are two principal classes of compulsory insurance in Mozambique. It is compulsory to insure with a locally registered insurance company for motor third party liability for any vehicle intending to circulate on the national roads, whether the vehicle has a local or foreign registration. For foreign registered vehicles, insurers utilise agency networks to issue such policies at key entry points into Mozambique. Additionally, all businesses and organisations are required to have workman's compensation insurance to cover their employees in the case of a work-related accident. This notwithstanding, market consensus is that enforcement of compulsory insurance products remains undeveloped.

Industry composition

The number of insurers participating in the Mozambican insurance industry has increased considerably over the review period. The number of operating companies has risen to 14 (while noting that the number licensed entities equates to 16), nearly trebling the figure prior to the start of the review period. Note is taken of the fact that only five of these entities have been operating in Mozambique for more than 4 years. This is expected to give rise to increased competitive dynamics over the medium term. Notably, minimum capitalisation levels have remained at US$1m for several years (identical for non-life, life, composites and reinsurers). As such, the low barrier to entry allows for a large pool of potential market entrants, without a concomitant capital ramp-up to strengthen local market capacity.

The industry evidences a 2 tier structure, with the 4 largest entities comprising over 90% of market GWP. The absence of mandatory company specific disclosure requirements limits meaningful individual company comparison. Based on the limited market data available, however, Companhia de Seguros de Mocambique SARL ("IMPAR") accounts for roughly 28% of total industry gross premiums, followed by Empresa Mocambicana de Seguros ("EMOSE") with around 25%, GA (22%) and Hollard Seguros (16%). Assessing industry premiums with respect to general insurance only, GA is the market leader (with 25%), followed closely by EMOSE and IMPAR with 24% each. GA is less competitive in the life arena, accounting for 8% of market premiums, albeit off a zero base a few years prior. This segment of the market is dominated by EMOSE, with over 50% market share, and is only contested by 4 companies.

Insurance penetration and density

The recent increase in licensed insurers is attributable to the vast mega projects being undertaken across the country, which has continued to drive insurance requirements. Specifically, the market continues to evidence double digit growth, with GWP estimated at around US$220m as at 31 December 2011. This pertains primarily to the short term insurance segment (around 85%). Growth in recent years has, however, emanated off a low base. Accordingly, the Mozambican economy remains lightly penetrated by the insurance industry (comprising less than 1% of Mozambique's GDP).

Insurance requirements for the numerous mining, oil, gas, coal and construction projects being undertaken in Mozambique are overwhelmingly placed by a handful of multinational intermediaries, thereby cementing their prominence in the insurance market. A number of local brokers also enjoy a meaningful presence. The intermediary market is largely unregulated, with commissions negotiated directly with insurers. In addition, although reinsurance transactions are conducted relatively free of regulation, a recent regulatory amendment was enacted stipulating that insurers minimise fronting arrangements. Moz Re, the only locally based reinsurer operating in Mozambique, is expected to benefit accordingly (although increased capitalisation will be necessary). It is also understood that the Regulator has conducted audits of local insurers' fronting arrangements, thereby enforcing this rule.

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 4 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's shares were purchased by the Absa Group, with its ultimate holding company being Barclays Bank Plc (55.62% shareholding). In view of Global Alliance's strong brand in the domestic market, Absa chose to retain its name. The transaction forms part of the greater Absa group's African Bancassurance Expansion Programme into countries in which it or Barclays has a presence.

Risk management framework
GA Seguros' risk management and governance framework has been aligned with the Absa Group and Barclays Plc 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 has access to Absa insurance and reinsurance expertise when required.

Competitive positioning

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Earnings diversification

A 5-year financial synopsis is reflected at the back of this report and brief comment follows hereafter. The 2013 financial statements were audited by PricewaterhouseCoopers, Lda, with an unqualified opinion issued.

Prior to 2011, financial statements were presented in accordance with Mozambican Generally Accepted Accounting Principles Applicable to Insurance Companies. Effective 2011, financial statements are prepared in accordance with IFRS (with 2010 results restated). Please refer to GCR's 2012 rating report for GA Seguros, which details the key adjustments to the financial results.

Market segments
GA Seguros has established long standing relationships with several large multinationals operating across a broad range of industries in Mozambique. In this regard, the corporate division dominates business derivation, representing 64% of F13 GWP. Further, the insurer is expected to continue to benefit from the vast mega-projects being undertaken across the country. The bulk of corporate risks pertain to property, engineering and motor fleet risks.

GA Seguros launched its life division (Vida) in 2010, 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 their infancy stages in Mozambique (thereby offering significant growth potential).

Distribution channels
Corporate business is mainly procured through intermediaries (72% of GWP), evidencing some concentration risk towards the largest three multinationals (combined 49% of GWP). A select panel of brokers are also responsible for marketing group life products. Direct business accounts for the remaining 28%. Premium derivation by policyholder is relatively well spread, with the five largest clients combined representing less than 20% of the gross book.

Gross premium diversification
GA Seguros has achieved a very strong gross premium compound annual growth rate of 31% over the review period. This is reflective of the very strong growth

opportunities available in the market, coupled with GA Seguros' competitive strength in sustaining high levels of premium uptake. In F13, the strong growth trajectory was maintained, with GWP reported 32% higher at MZM1.9bn. This was well above initial expectations, given the presence of sizeable construction risks. The latter is predominantly project-based, resulting in the insurer typically not budgeting for high premium flows.

Table 2: Gross premiums	F12		F13	
	MZM'm	%	MZM'm	%
Fire & engineering	668.2	47.4	880.9	47.2
Motor	319.6	22.7	404.0	21.7
Workmen's comp.	88.4	6.3	110.2	5.9
Transport	93.0	6.6	84.7	4.5
Accident & health	47.7	3.4	46.6	2.5
Miscellaneous	22.6	1.6	23.7	1.3
Liability	60.9	4.3	182.7	9.8
Life	108.7	7.7	131.8	7.1
Total	**1,409.0**	**100.0**	**1,864.6**	**100.0**

Growth has emanated, in large, from the fire and engineering contracts attached to the natural resource megaprojects, as well as corporate motor fleet accounts. The former includes vast property, road, oil, gas and coal projects being undertaken in Mozambique. Accordingly, opportunity to diversify the premium spread is fairly limited, with motor and fire accounting for almost two thirds of the gross premium spread.

- *Fire & engineering* continued to dominate premium flows, accounting for 47% of GWP in F13 (F12: 47%).
- *Motor* rose by a 26% to MZM404m, which saw its relative contribution fall to 22% on a gross basis (F12: 23%).

The insurer continued to report inroads into life, which saw its relative contribution stable around 11% of NWP.

- A key success in this regard relates to the take-on of certain large corporate pension fund schemes and investment assets (including shareholder Barclays, from which GA expects to derive increased scale and synergies over the medium term). This is expected to be supplemented by the bancassurance/investment sub-division, which rose to represent 56% of life GWP in F13.
- Life policies represented the remainder of the total life portfolio, largely encompassing group risks (life and disability), employee benefits and credit life. In this respect, going forward, the insurer is expecting the life portfolio to represent a fairly stable 10% of the book, largely due to the shift in Barclays' global credit life strategy. In this regard, the British regulatory system's emphasis on Treating Customers Fairly ("TCF") has resulted in Barclays opting to pay credit life protection premiums to insurers directly as a value-add to borrowers' banking products. This replaced the bank's previous expansionary credit life growth strategy. As such, business development in the life market is only viewed to hold longer term potential to supplement diversification to a more material degree. Barclays in the 6th largest bank in the Mozambican market (occupying a 5% market share), which limits GA Seguros' scope for a growth (relative to the bank's more dominant market share is other sub-Sahara African markets).

Table 3: Net premiums	F12		F13	
	MZM'm	%	MZM'm	%
Fire & engineering	80.7	12.1	134.6	16.3
Motor	317.9	47.8	385.2	46.6
Workmen's comp.	88.4	13.3	110.2	13.3
Transport	26.3	4.0	25.1	3.0
Accident & health	36.3	5.5	38.8	4.7
Miscellaneous	21.2	3.2	21.5	2.6
Liability	13.1	2.0	17.4	2.1
Life	80.8	12.2	94.4	11.4
Total	**664.7**	**100.0**	**827.1**	**100.0**

Net premium diversification

Retention amounted to 44% in F13 (F12: 47%), below budget of 61% given the higher component of heavily reinsured risks. Accordingly, NWP came in 24% higher, remaining ahead of initial forecasts.

- As GA retains the bulk of motor, this class represented the dominant portion of net premiums.
- Fire & engineering constitute the second largest contributor to NWP. Given the potentially high value in claims, GA adopts a conservative approach to these risks.
- Workmen's compensation constitutes the third largest contributor to NWP (F13: 13%).

Prospective growth

In anticipation of lower once-off heavily reinsured risks, GWP is expected to decrease to MZM1.7bn in F14. Premium volumes pertaining to such risks cannot be predicted with high levels of accuracy (as evidenced by the large upswing in such revenue in F13). Year-to-date growth reflects that budgeted GWP is likely to be exceeded, although note is taken of the cyclicality of large annual policies.

Profitability

Table 4: Class performance (%)	Earned loss ratio		Net commission ratio		Technical margin	
	F12	F13	F12	F13	F12	F13
Fire & engineering	26.9	29.5	5.2	9.1	67.9	61.4
Motor	61.9	72.3	9.9	13.5	28.2	14.2
Workmen's comp	70.9	56.7	15.9	15.6	13.1	27.7
Transport	29.6	19.1	11.0	6.8	59.4	74.1
Accident & health	33.7	5.2	10.8	3.0	55.5	91.9
Miscellaneous	63.3	34.4	(4.7)	28.4	41.4	37.2
Liability	36.3	22.9	36.0	(19.1)	27.8	96.2
Life	40.8	41.6	15.3	9.6	43.9	48.8
Total	**53.0**	**51.8**	**10.9**	**11.4**	**36.1**	**36.8**

Source: Management accounts.

Loss ratio analysis

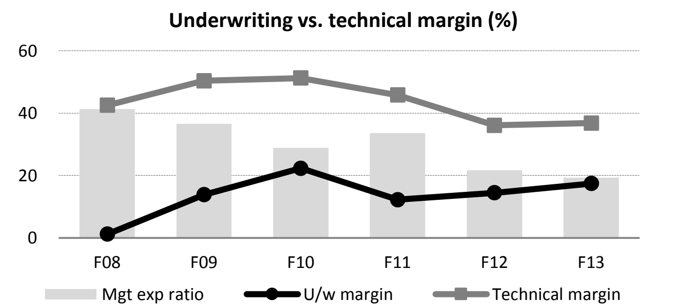
GA Seguros has registered a fairly contained net incurred loss ratio over the past three years, with the loss ratio equating to 52% in F13 (F12: 53%). This was in line with the review period average (48%), albeit that the ratio has trended consistently upwards in more recent years.

- The latter is due to the rising *motor* loss ratio, reflective of the competition within this class resulting from the increased number of players competing for key business. GA Seguros' management has noted the soft rates environment prevalent across the market, with insurers having to discount good portfolios by up to 20% to maintain retention. Furthermore, the industry, has encountered increasing claims pressure of late as a rapidly expanding number of vehicles congest Maputo. The motor loss ratio, nevertheless, remains within a range that allows for technical profitability going forward. As the insurer's largest line of business, this represents an avenue for continued profitability, albeit with a likelihood of narrowing margins.

- *Workmen's compensation* also continued to run at favourable loss ratios, contributing further to overall technical profitability.
- *Life* continued to report a very low incidence of claims. The relative infancy and nature of this class is, however, expected to see increasing loss experience going forward. The bulk of the remaining short-term classes lack material scale, and consequently may evidence volatility until a larger premium base is attained.

Technical profitability

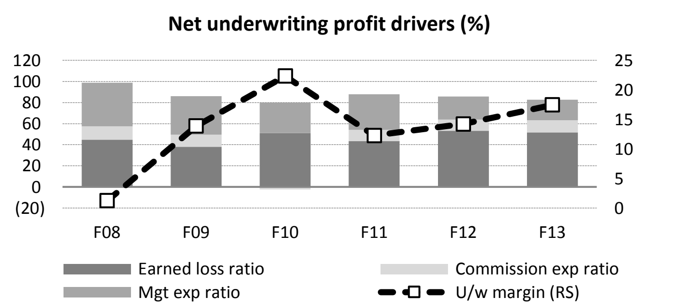
The insurer has registered a high level of stability within the technical account, which has contributed favourably to GCR's view of earnings capacity. In this regard, consistency in the net incurred loss ratio (F13: 51.8%; F12: 53%) and net commission ratio (F13: 11.4%; F12: 10.9%) has facilitated technical margins that have been both strong and stable (F13: 36.8%; F12: 36.1%).



Expense analysis

Management expenses continued to be well contained in F13, amounting to MZM157.2m (F12: MZM143.6m). Against a 24% rise in NPE, the expense ratio improved marginally to 19% (F12: 22%). The gradual decline in relative expenses, from a high of 41% in F08, is favourably viewed. The bulk of the cost base pertains to salaries and bonuses. Relative to GWP, management expenses reduced further to 8% from 10% previously.

Underwriting profitability



Supported by improved scale efficiencies (stemming from an enhanced premium base) GA reported a 52% increase in underwriting profits to MZM142m, translating to an 18% margin (budget: 20%; F12: 14%). This represents the fourth consecutive double digit underwriting margin increase.

Table 5: Financial performance (MZM'm)	F13		F14	
	Actual	Budget	Actual YTD*	Budget
GWP	1,864.6	1,209.4	1,893.7	1,679.0
NWP	827.1	734.4	734.5	863.5
NPE	**812.3**	**713.4**	**681.5**	**814.3**
Claims	(420.5)	(284.7)	(330.9)	(405.4)
Commission	(92.8)	(102.1)	(85.5)	(33.6)
Mgmt expenses	(157.2)	(184.8)	(161.1)	(217.8)
U/w result	**141.8**	**141.8**	**104.0**	**157.4**
Investment income**	10.1	-	20.2	5.8
Other income/(exp)	35.7	-	14.1	0.0
Tax	(58.7)	-	(44.2)	(73.8)
NPAT	**128.8**	**89.5**	**94.0**	**89.4**
Unrealised movements	(6.1)	0.0	0.0	0.0
Other comp. income	3.5	-	-	-
Dividend	0.0	0.0	0.0	0.0
Retained earnings	**126.2**	**89.5**	**188.0**	**89.4**
Capital	*456.2*	*430.1*	*550.9*	*545.6*
Key ratios (%)				
GWP growth***	32.3	(14.2)	35.4	(10.0)
Retention	44.4	60.7	38.8	51.4
Earned loss ratio	51.8	39.9	48.6	49.8
Commission ratio	11.4	14.3	12.5	4.1
Mgmt expense ratio	19.4	25.9	23.6	26.7
U/w margin	17.5	19.9	15.3	19.3
Op. margin	18.7	19.9	18.2	20.0
RoR (gross)	6.9	11.7	5.0	5.3
RoR (net)	15.6	19.3	12.8	10.4
Solvency	55.2	58.6	55.2	63.2

*9 months to September 2014.

**Excludes unrealised movements.

***Annualised for year to date results.

Note: Budget translated using an exchange rate of MZM27/US$ in F13, and MZM30/US$ in F14. YTD14 has been translated using an exchange rate of MZM30.7/US$.

Net profitability

Investment income was stable at MZM10m, comprised of interest and rental income. The bulk of liquid funds have historically been held in US$, which derives nominal interest in Mozambican banks. This has served to constrain the investment yield, which was reported at a subdued 2% in F13. 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's operating performance will become increasingly susceptible to exchange rate volatility upon conversion.

After accounting for other income and a MZM59m taxation charge, net after tax profits were reported at MZM129m, from MZM66m in F12. Including net unrealised forex losses and investments gains of -MZM6.1m (F12: MZM13m), retained income totalled MZM126m (F12: MZM100m).

Prospective profitability

GA Seguros has budgeted for underwriting profitability to remain within a very strong range in F14 (budgeted margin of 19%). This is largely a function of a lower expense ratio, as operational cost controls filtering from the banking group's initiatives take effect. Notably, the insurer expects to benefit from increasing automation. Specifically, premium collections and claims payouts are expected to transition to EFT and digital transactions going forward (with management noting that current policyholder culture utilises paper and physical currency). This is also expected to enhance premium collection turnaround, while the transition to monthly premium payments will reduce the UPR. Investment returns are projected to remain limited, although NPAT of MZM89m is forecast to produce a strong RoE of 18%. Year-to-date figures to September 2014 illustrate that the bulk of profit indicators are trending in line with strategic expectations, with note taken of the inflated commission expense due to the cash basis of accounting for this item.

Reinsurance

Reinsurance counterparties

The lead reinsurer across most of the programme is Munich Re 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 US Dollars, with exchange rates set in contracts (mitigating the risk of forex fluctuations on deductibles and capacity).

Table 6: Reinsurance 2014	Retention	Capacity
Excess of loss (layers)		
General account (2)*	US$250,000	US$4m
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)#	US$35m	US$140m

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

Reinsurance structure

The structure of the reinsurance programme for 2014 is unchanged from the previous year, with the exception of certain retention/capacity amendments. 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 US$250,000 (or 1.6% of FYE13 capital). In terms of the life division, an XOL policy provides cover in the event of catastrophic losses, subject to a net retention of US$150,000.

Reinsurance account result

Premium cessions increased by 39% to MZM1bn in F13, owing to the influx of fire and engineering risks in the business mix. Claims recoveries equated to MZM298m (F12: MZM233m), with the claims recovery rate amounting to 29% (F12: 31%). Inclusive of commission recoveries, the total recovery rate was recorded at 33% (F12: 37%). The net transfer to reinsurance counterparties grew to MZM693m in F13 (F12: MZM470m), corresponding to a strong technical margin of 67% (F12: 63%).

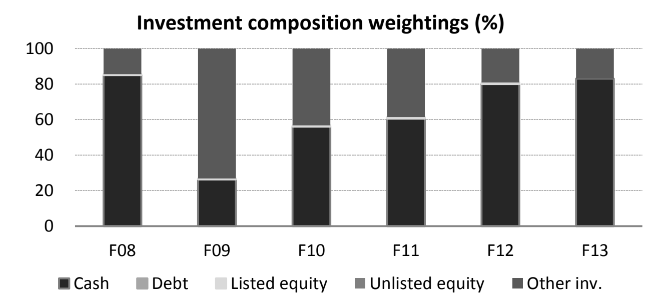
Table 7: Reinsurance trade off (MZM'm)	F11	F12	F13
Premium ceded	(547.1)	(744.4)	(1,037.5)
Commissions received	44.3	42.3	46.0
Claims recovered	33.4	233.1	298.3
Net transfer / (recovery)	**(469.4)**	**(469.0)**	**(693.2)**
% of capital	250.9	142.1	151.9

Asset management

Table 8: Investment portfolio	F12		F13	
	MZM'm	%	MZM'm	%
Cash & cash equivalents	**357.5**	**80.0**	**483.3**	**82.9**
Listed equities	2.6	0.6	0.0	0.0
Bonds	1.2	0.3	0.0	0.0
Investment property	85.5	19.1	99.7	17.1
Other investments	**89.3**	**20.0**	**99.7**	**17.1**
Total investments	**446.8**	**100.0**	**582.9**	**100.0**
% of assets	61.3		54.4	

Cash and liquidity

On the back of sound operating cash flows, cash holdings increased by 35% to MZM483m. Cash continued to dominate the investment portfolio, representing 83% thereof (F12: 80%), and covered capital by a sound 1x. Key liquidity ratios remained strong, with claims cash coverage increasing to 14 months (F12: 13 months), while coverage of technical liabilities was reported at a comfortable 2.2x (F12: 1.9x). Cash holdings are mainly placed with Barclays Bank Mozambique, Standard Bank, and unrated Banco Austral and BIM.



Financial assets

The bulk of non-cash investments relate to GA's head office development in Maputo. The portion rented to third parties amounted to a higher MZM100m in F13. 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 22% (F12: 26%), contrasting the capital exposure carried earlier in the review period. The insurer disposed of the small holding in listed equities and bonds (previously 1% of total invested assets).

Premium debtors

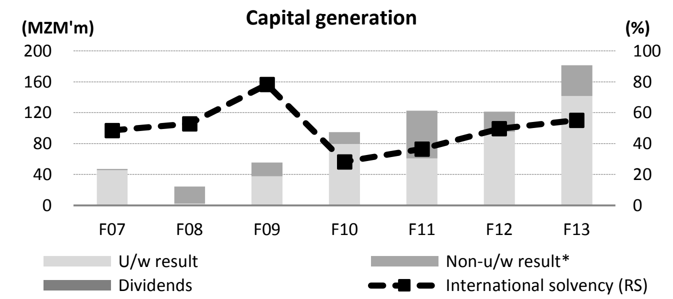
Insurance receivables were well contained relative to GWP growth in F13. This saw the average turnaround of debtors reported at 55 days in F13 (F12: 37 days).

According to management, all insurance receivables fell within 180 days.

Solvency and reserving

Capital generation

Shareholders' interest increased by 38% to MZM456m at FYE13, underpinned by a 26% rise in retained earnings. High levels of net income emanating from the core underwriting account, coupled with full income retention, has supported GCR's view of GA Seguros' earnings capacity. We expected RoE to continue to trend between 15% and 25% over the rating horizon, with a slightly lower return catering for potential underwriting margin contractions.



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

International solvency margin

Capital adequacy viewed to be moderately strong, with the international solvency margin expected to rise to 63% in F14 (F13: 55%). On a risk-adjusted basis, capital strength is supported by the low level of product risk within the insurer's net premium base, and limited market risk in the investment portfolio. This is expected to persist going forward, given stability in the underwriting and investment strategies over the rating horizon.

Statutory solvency margin

Statutory solvency rose from 169% in F12 to 198% in F13, which is comfortably above the minimum requirement of 100%. Absa has advised that coverage of 2x the statutory requirement will be targeted going forward. Further, the capital position is assessed bi-annually, while no dividend is expected to be paid over the medium term.

Technical reserving

Net outstanding claims amounted to a stable 14% of NWP in F13, 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 declined to 13% in F13, from 14% 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		2009	2010	2011	2012	2013
Income Statement						
Gross written premium (GWP)		628.6	814.3	1,060.4	1,409.0	1,864.6
Reinsurance premiums		(350.3)	(432.4)	(547.1)	(744.4)	(1,037.5)
Net written premium (NWP)		**278.3**	**381.9**	**513.3**	**664.7**	**827.1**
(Increase) / Decrease in insurance funds		(8.3)	(25.8)	(16.6)	(7.0)	(14.9)
Net premiums earned		**270.0**	**356.1**	**496.7**	**657.6**	**812.3**
Claims incurred		(102.8)	(182.1)	(215.9)	(348.9)	(420.5)
Commission		(31.1)	8.4	(53.1)	(71.7)	(92.8)
Management expenses		(98.7)	(102.9)	(166.8)	(143.6)	(157.2)
Underwriting profit / (loss)		**37.4**	**79.5**	**60.9**	**93.5**	**141.8**
Investment income (incl. realised gains)		2.3	7.4	8.1	8.5	10.1
Other income / (expenses)		1.1	7.6	6.6	2.6	35.7
Taxation		(17.3)	(32.0)	(41.8)	(38.3)	(58.7)
Net income after tax		**23.5**	**62.6**	**33.8**	**66.4**	**128.8**
Unrealised gains / (losses)		94.3	(0.2)	50.6	13.0	(6.1)
Other comprehensive income		n.a	n.a	n.a	21.1	3.5
Retained surplus / (deficit)		**117.8**	**62.4**	**84.4**	**100.5**	**126.2**
Dividends in respect of financial year		0.0	0.0	0.0	0.0	0.0
Balance Sheet						
Total capital		**217.6**	**107.8**	**187.1**	**330.1**	**456.2**
Net UPR		48.1	61.4	81.0	94.8	108.7
Net OCR & IBNR		74.6	65.6	76.0	97.0	113.3
Other liabilities		122.1	209.9	203.0	207.4	392.8
Total capital & liabilities		**462.4**	**444.6**	**547.2**	**729.2**	**1,070.9**
Fixed assets		6.8	87.3	73.5	116.6	114.9
Investments		200.8	114.3	117.8	89.3	99.7
Cash and equivalents		71.4	145.4	180.6	357.5	483.3
Other current assets		183.5	97.6	175.2	165.7	373.1
Total assets		**462.4**	**444.6**	**547.2**	**729.2**	**1,070.9**
Key Ratios						
Solvency / Liquidity						
International solvency margin	%	78.2	28.2	36.5	49.7	55.2
Net UPR / NWP	%	17.3	16.1	15.8	14.3	13.1
Net OCR & IBNR / NWP	%	26.8	17.2	14.8	14.6	13.7
Financial base / NWP	%	122.3	61.5	67.1	78.5	82.0
Claims cash coverage	months	8.3	9.6	10.0	13.3	13.8
Cash / Technical liabilities	x	0.6	1.1	1.1	1.9	2.2
Efficiency / Growth						
GWP growth	%	44.3	29.5	30.2	32.9	32.3
Retention rate	%	44.3	46.9	48.4	47.2	44.4
Earned loss ratio	%	38.1	51.1	43.5	53.0	51.8
Commissions / Earned premiums	%	11.5	(2.4)	10.7	10.9	11.4
Management expenses / Earned premiums	%	36.6	28.9	33.6	21.8	19.4
Underwriting result / Earned premium	%	13.9	22.3	12.3	14.2	17.5
Combined ratio	%	86.1	77.7	87.7	85.5	82.5
Operating margin	%	14.7	24.4	13.9	15.5	18.7
Profitability						
Investment yield (excluding unrealised gains / losses)	%	1.0	2.8	2.9	2.3	2.0
Investment yield (including unrealised gains / losses)	%	43.7	2.7	21.0	5.7	0.8
ROaE (excluding unrealised gains / losses)	%	14.7	38.5	22.9	25.7	32.8
ROaE (including unrealised gains / losses)	%	73.7	38.4	57.2	30.7	31.2
Dividend cover	x	n.a.	n.a.	n.a.	n.a.	n.a.

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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/s has been disclosed to GA Seguros with no contestation of the rating.

The information received from GA Seguros and other reliable third parties to accord the credit rating(s) included the 2013 audited annual financial statements (plus four years of comparative audited numbers), full year detailed budgeted financial statements for 2014, year to date management accounts to September 2014, the 2014 reinsurance cover notes, and other documentation related to the rating exercise.

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.