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Global Alliance Seguros, S.A.

Mozambique Insurance Analysis **June 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Claims paying ability	National	A(MZ)	Negative	June 2019

Financial data:

(USD'm comparative)

	31/12/16	31/12/17
MZN/USD (avg.)	62.65	66.10
MZN/USD (close)	71.73	58.97
Total assets	30.7	36.7
Total capital	11.0	9.0
Cash & equiv.	17.0	22.4
GWP	39.3	23.3
U/w result	(3.9)	(4.9)
NPAT	(0.4)	(3.9)
Op. cash flow	9.5	(0.8)
Market cap.		n.a.
Market share*		13%*

*Based on provisional industry GWP for 2017.

Ratings history:

Initial rating (November 2002)

Claims paying ability: BBB+(MZ)

Rating outlook: Stable

Last rating (July 2017)

Claims paying ability: AA-(MZ)

Rating outlook: Stable

Related methodologies/research:

Criteria for Rating Short Term Insurance Companies, Updated May 2018

Criteria for Rating Long Term Insurance Companies, Updated May 2018

GA Seguros rating reports, 2002 – 2017

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Summary rating rationale

- The downgrade followed a sustained weakening in Global Alliance Seguros, S.A.'s ("GA Seguros") market share and earnings capacity. In this respect, the premium base contracted for a third consecutive year, with a particularly significant reduction in FY17, resulting in loss of scale efficiencies. Consequently, the insurer's market share (for both short and long term business), equated to a lower 13% in FY17 (FY16: 22%), compared to 31% in FY14. As such, GA Seguros's ranking dropped to fifth place in FY17, compared to its market leadership position in FY16. GCR expects volume and earnings pressure to persist over the rating horizon (given the challenging operating environment, in line with increased competitive dynamics).
- Furthermore, earnings capacity remained within a very weak range over the last two years, compared to strong levels recorded at the start of the review period. This was largely due to deep underwriting deficits recorded over the last two years, offsetting sound investment income. Sustained weakening in underwriting profitability was spurred by a sizeable once off reserve adjustment in FY16, and loss of scale efficiencies in FY17 following a 37% reduction in premium volume. Consequently, the recent two year average underwriting margin equated to -28% in FY17, compared to the prior three year cycle metric of 12%. In light of the challenging operating environment, the insurer is likely to experience continued earnings strain over the rating horizon. Looking ahead, GCR views the extent to which this results in a further weakening in the insurer's credit profile as a key rating consideration. The negative outlook reflects the likelihood for further negative rating action should GA Seguros's credit profile continue to be impacted by the above-mentioned factors, which could potentially result in a further moderation in risk adjusted capitalisation.
- Risk adjusted capitalisation reduced to a moderately strong range in FY17 from the strong levels reflected previously. This was largely due to the contraction in the capital base to MZN532m at FY17 (FY16: MZN787m), impacted by substantial losses incurred during the year, although partially offset by the reduction in insurance risk, coupled with very limited exposure to credit sensitivities. In the absence of additional solvency support, risk adjusted capital adequacy may moderate further over the outlook horizon on the back of sustained poor operating performance.
- Liquidity is assessed at strong levels, underpinned by a sizable investment portfolio, with a large quantum of assets placed in liquid instruments (FY17: 83%). Accordingly, cash coverage of average monthly claims and technical provisions equated to a higher 25 months and 1.7x at FY17 (FY16: 15 months and 1.5x) respectively. Liquidity metrics are expected to trend within a similar level over the rating horizon.
- 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 additional avenues for growth by having access to the group's large client base.

Factors that could trigger a rating action may include

Negative change: Negative rating action will likely follow further weakness in earnings capacity, risk adjusted capitalisation and market share.

Positive change: The rating may benefit from a sustained improvement in earnings capacity, risk adjusted capitalisation and market share. This will have to be supported by continued strength in other credit protection metrics.

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Operating environment

Economic overview
Data released by the Mozambique National Institute of Statistics revealed that GDP at factor cost expanded by 3.8% in 2017, on the back of a recovery in agricultural production and mining activity (mainly coal). The debt-ridden nation has been facing challenges since 2015, having been impacted by lower commodity prices and adverse weather conditions, dampening agricultural production. Economic performance was further exacerbated by the discovery of secret loans advanced to three state-owned enterprises in 2016 and the ensuing withdrawal of donor-funded budgetary support, triggering a debt and currency crisis. According to the International Monetary Fund (IMF), real GDP growth is expected to remain weak, trending within the 2.2-2.5% range over the medium term, largely underpinned by the growth in coal mining and infrastructure investments.

The country's level of total public debt remained unsustainable in the context of a weak revenue base. Total nominal public debt (inclusive of the participation of ENH, a national hydrocarbon company, in the gas projects) as percentage of GDP stood at 112% in 2017 (2016: 128%) and is expected to remain above 100% through 2022, reaching a peak of 146% in the same year. Recent debt restructuring efforts by the Mozambican government through the Ministry of Finance (including plans for substantial write-downs, along with low interest rates till 2023) were met with stiff resistance from the Global Group of Mozambique Bondholders, further plunging the economy into an abyss of a debt crisis, given the continued incurrence of sovereign arrears.

The prevailing economic conditions have a negative bearing on credit growth, limiting access to funding required for the much-needed private sector investment to stimulate the economy. Due to very high real interest rates offered on government securities (a function of a tight monetary policy stance, coupled with plummeting inflation), banks are increasing their local currency reserves with the central bank through the purchase of instruments such as overnight reverse repos. While the massive increase in minimum capital requirements and solvency ratios for commercial banks by the Bank of Mozambique ("BM") in 2017 is commended for strengthening the soundness of the financial services sector, this has constrained the banks capacity to advance credit. Furthermore, the pursuit of an overly loose fiscal policy in 2017 constrained the private sector's access to credit, as they grappled to match the higher rates offered on government securities.

The BM tightened monetary policy since October 2016, facilitating exchange rate appreciation and subsequent stabilisation, with the local currency closing at MZN58.97 to the USD in 2017 (2016: MZN71.73). The combined effects of higher interest rates and a strengthening local currency saw year on year inflation plummeting to 6.3% in January 2018, with the consumer price inflation anticipated to float within the targeted range of 5%-6% over the medium term.

As expected, the BM is now loosening its monetary policy grip, amid falling inflation, with the bank's Monetary Policy Committee cutting the Money Market and the Permanent Lending Facility rates by 150 and 100bps respectively on 11 April 2018. This would potentially increase the private sector's access to liquidity, and stimulate economic activity. Nonetheless, such a policy needs to be complemented by the adoption of resolute fiscal consolidation efforts to keep the level of public debt on a sustainable path – a policy that is highly unlikely given the potential for fiscal slippages emanating from weak state-owned enterprises. The development of a sustainable debt restructuring programme that appeals to bondholders without further jeopardising macroeconomic stability, coupled with increased transparency and accountability regarding how proceeds from these secret loans were used are also viewed as necessary ingredients towards resuscitating waning investor and donor confidence.

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 three branch offices providing support. The company has a composite licence to transact both non-life and life insurance.

Ownership structure
As at 31 December 2017 Absa Financial Services Africa Holdings (("the parent") which is a subsidiary of Barclays Africa Group Limited ("BAGL" or "the group")) held 98% stake in GA Seguros, with the balance equally split between Absa Insurance Company Limited and Absa Life Limited. Barclays plc, a multinational investment bank and financial services company headquartered in London, historically held the majority shareholding in BAGL. By the end of 2017, Barclays plc reduced its stake in the group to 14.9%, consistent with its plans to lower its exposure to the continent. GA Seguros benefits from operational and technical support provided by the parent, as well as additional avenues for growth through having access to the parent and group's large client base.

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

Strategic objectives
Having inherited systems, processes and management from former shareholders, the need to align the insurer's structures with those of the parent have resulted in a change of management, systems and processes. With this new set-up, GA Seguros' strategy is largely focused on improving the quality of its business portfolio through the enforcement of stringent underwriting criteria, as well as

rates remediation, moving away from the long-standing objective of consolidating its erstwhile market leading position. In this respect, the insurer has adopted risk-based pricing across all its product offerings, with the assistance of the parent's actuaries. 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 2017 financial statements were audited by KPMG, with an unqualified opinion issued. GA Seguros has a 5 year auditor rotation policy in place.

Competitive position

Growth and market position
The gross premium base contracted for a third consecutive year in FY17 and is likely to remain under pressure over the rating horizon (given the challenging operating environment, in tandem with increased competitive dynamics). In this regard, the insurer's market share (for both short and long term business) evidenced a sustained weakening equating to a lower 13% in FY17 (FY16: 22%), compared to 31% in FY14. As such, GA Seguros ranked the fifth largest player in FY17, compared to being the market leader in FY16.

Earnings profile

Market segment diversification
The corporate market segment remained the primary source of business in FY17, although business procured from this segment moderated to 67% (FY16: 95%). The balance of the business was garnered from Small, Medium and Micro-sized Enterprises (24%) and personal lines (9%). The market segment mix is projected to remain unchanged in FY18, with the bulk of the business (95%) to be sourced from the corporate segment.

Distribution channel diversification
Reflecting GA Seguros's strong corporate bias, the distribution channel mix is dominated by brokered business, accounting for a relatively stable 52% of GWP in FY17 (FY16: 51%). Business procured through direct sales efforts declined significantly to MZN607m in FY17 (FY16: MZN1.0bn), constituting a lower 39% of the gross premium base (FY16: 41%). The balance of the business was sourced from bancassurance partners (5%) and independent agents (3%). Looking ahead, GA plans to grow its bancassurance channel, leveraging off its relationship with the parent company.

Premium scale

Table 1: Premium scale (MZN'm)	**FY17**		**FY18**	
	Actual	**Budget**	**4M FY18***	**Budget**
GWP	1,539.8	2,214.5	365.2	1,941.5
NWP	796.4	1,103.2	220.7	1,172.1
Key ratios (%)				
GWP growth*	(37.4)	(10.0)	(28.9)	26.1
Retention	51.7	49.8	60.4	60.4

*Annualised for year to date results.

Total gross premiums declined substantially by 37% to MZN1.5bn in FY17 (FY16: MZN2.5bn), exceeding the budgeted contraction of 10%. Management has budgeted for a partial recovery in FY18, targeting a growth rate of 26%, to be driven largely by motor and fire & engineering portfolios.

Subsequent to the cancellation of policies outside the insurer's risk tolerance bands (with better risks preserved), the premium retention rate rose to a review period high of 52% in FY17 (FY16: 45%), and is projected to increase further to 60% in FY18.

Earnings diversification by line of business

Table 2: Earnings diversification (%)	**GWP**		**NWP**		**Retention**	
	FY16	**FY17**	**FY16**	**FY17**	**FY16**	**FY17**
Fire & Engineering	26.0	19.2	8.1	5.8	14.1	15.6
Transport*	2.8	3.0	2.6	1.1	41.6	19.5
Motor	17.0	22.9	37.2	44.2	99.7	100.0
Accident**	7.0	10.3	14.8	18.2	95.8	91.2
Life	7.4	13.4	10.3	10.5	62.8	40.5
Liability	2.8	4.4	6.1	8.2	97.4	97.3
Medical	21.1	4.6	5.2	(0.1)	11.3	(1.5)
Miscellaneous	15.8	22.2	15.7	12.1	45.1	28.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**45.4**	**51.7**

* Includes marine and aviation.
** Includes personal accident and workmen compensation.

GA Seguros's product mix is viewed to be well-diversified at gross level, with five lines contributing materially to overall GWP in FY17. Nonetheless, the product mix on a net basis evidenced high concentration around motor, despite substantial contributions from other auxiliary lines of business. The business mix is expected to remain relatively unchanged going forward.

With the exception of life, all the other portfolios registered negative growth in FY17, with medical shedding 86% in premiums, followed by fire & engineering (54%), transport (33%) and motor (16%). Class-wise premium reduction was principally attributed to the loss of key accounts to rival insurers, coupled with the cancellation of policies outside GA Seguros's risk tolerance bands subsequent to portfolio remediation. As such, the share of fire & engineering and medical risks in the total portfolio reduced to 19% and 5% in FY17 (FY16: 26% and 21%) respectively. Nevertheless, relatively low sensitivity to the overall reduction in the gross premium base in FY17 resulted in motor and accident lines constituting a higher 23% and 10% of GWP (FY16: 17% and 7%) respectively. Going forward, growth is expected across most business lines, with fire & engineering and motor portfolios projected to advance by 46% and 79% in FY18 respectively.

Earnings capacity

Claims experience

Table 3: U/w profitability (%)	NILR		Total exp. ratio		U/w margin	
	FY16	FY17	FY16	FY17#	FY16	FY17#
Fire & Engineering	158.8	379.4	36.7	25.7	(95.5)	(305.1)
Transport*	47.6	29.4	33.7	22.7	18.7	47.9
Motor	75.6	63.2	37.0	44.4	(12.6)	(7.6)
Accident**	178.2	62.9	39.7	47.7	(117.9)	(10.6)
Life	40.2	7.0	53.4	56.1	6.4	36.9
Liability	78.2	80.1	34.0	44.2	(12.2)	(24.3)
Medical	9.6	(0.8)	21.3	(92.3)	69.1	193.0
Miscellaneous	34.2	52.6	27.7	48.9	38.0	(1.4)
Total	**84.4**	**72.8**	**36.3**	**44.0**	**(20.7)**	**(16.8)**

Excludes group shared costs amounting to MZN179m.
* Includes marine and aviation.
** Includes personal accident and workmen compensation.

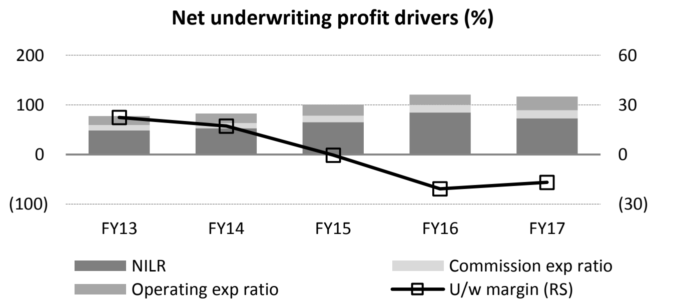
Despite the normalisation in claims provisions in FY17, which resulted in a significant reduction in net claims by 37% to MZN628m (FY16: MZN989m), and the subsequent improvement in the claims ratio to 73% (FY16: 84%), GA Seguros's claims experience nevertheless remained elevated, compared to an average of 56% recorded during the first three years of the review period.

Due to the lumpy nature of risks underwritten, along with the historical type of accounts held (the bulk of which fell outside GA Seguros's risk tolerance bands), class-wise loss ratios evidenced greater variability, with standard deviations in excess of 12% for each class (except for medical) over the review period. In this respect, the loss ratios for key portfolios, namely fire & engineering, miscellaneous, motor and life equated to 379%, 53%, 63% and 7% in FY17 (FY16: 159%, 34%, 76% and 40%) respectively. Management is targeting a further reduction in the loss ratio to 49% in FY18.

Net commission expenses
Net commission expenses decreased by 17% to MZN193m in FY17 (FY16: MZN232m). Nevertheless, the net commission expense ratio equated to a review period high of 22% (FY16: 20%), underpinned by the reduction in the premium base. Net business costs are projected to reduce further to MZN103m in FY18, translating to a lower net commission ratio of 9%.

Operating expenses
Total operating expenses rose significantly by 88% to MZN365m in FY17 (FY16: MZN194m), underpinned by group shared costs (MZN179m). This, coupled with a significant contraction in the premium base in FY17 saw the operating expense ratio measuring at a review period peak of 42% (FY16: 17%). Operating expenses are anticipated to continue trending upwards, amounting to MZN559m in FY18, translating to a higher operating expense ratio of 47%.

Underwriting profitability



GA Seguros's underwriting performance remained suppressed, with the underwriting margin trending within the negative range for the third consecutive year. Sustained weakening in underwriting profitability was spurred by a sizeable once off reserve adjustment in FY16, and loss of scale efficiencies in FY17 (following substantial premium contraction). Accordingly, the recent two year cycle underwriting margin equated to -28%, compared to the prior three year cycle metric of 12%. Management has budgeted for an improvement in the underwriting account in FY18, targeting an underwriting margin of -5%. Note is, however, taken of the degree of implementation risk inherent in the premium growth target and the improvement in the claims ratio envisaged.

Net profitability

Table 4: Financial performance (MZN'm)	FY17		FY18	
	Actual	Budget	4M FY18*	Budget
NPE	**862.0**	**1,058.5**	**205.1**	**1,185.2**
Claims	(627.9)	(692.1)	(98.0)	(580.3)
Commission	(193.1)	122.0	(14.7)	(103.2)
Operating expenses	(364.9)	(545.7)	(107.4)	(558.8)
U/w result	**(324.0)**	**(57.2)**	**(15.0)**	**(57.0)**
Realised investment income	113.1	68.1	0.0	126.0
Unrealised investment income	(18.9)	0.0	0.0	0.0
Other income/(exp)	19.0	98.0	78.3	61.8
Tax	(44.7)	(34.7)	(20.2)	(41.9)
NPAT	**(255.4)**	**74.1**	**43.0**	**88.9**
Key ratios (%)				
U/w margin	(37.6)	(5.4)	(7.3)	(4.8)
Op. margin	(24.5)	1.0	(7.3)	5.8
RoR (gross)	(16.6)	3.3	11.8	4.6
RoR (net)	(32.1)	6.7	19.5	7.6

*4 months to April 2018.

Net profitability continued to deteriorate into FY17, registering a net loss after tax of MZN255m (FY16: MZN22m net loss; BGT17: MZN74m profit). This was largely a function of weak underwriting performance coupled with foreign currency losses, more than offsetting positive growth in realised investment income (57%). In this regard, the ROaE (excluding unrealised gains/losses) weakened further to a review period low of -36% in FY17 (FY16: -5%). Net profitability is projected at MZN89m in FY18, while the ROaE is expected to bounce back to 16%.

Reinsurance

Reinsurance counterparties
The lead reinsurer across the entire programme is Swiss Re, with a 41% participation on fire & engineering, motor, liability and accident, as well as marine cargo & hull XOL treaties. Other participants comprises Trust International Insurance & Reinsurance, Africa Re, Arab Re, Continental Re, Hannover Re and SCOR Africa Ltd.

Reinsurance counterparties reflect a strong aggregated level of credit quality.

Reinsurance structure
The structure of the reinsurance programme for 2018 is relatively unchanged from the previous year. In addition to the general account XOL treaty, three other XOL treaties are in place.

Reinsurance account result

Table 5: Reinsurance result (MZN'm)	FY15	FY16	FY17
Premium ceded	(1,419.5)	(1,342.4)	(743.4)
Commissions received	35.4	64.7	80.6
Claims recovered	200.9	709.2	539.1
Net cash result	**(1,183.2)**	**(568.5)**	**(123.7)**
Ratios (%)			
RI loss ratio	14.2	52.8	72.5
RI comm. ratio	2.5	4.8	10.8
RI tech margin	83.4	42.3	16.6

Despite the reduction in claims recovered to MZN539m in FY17 (FY16: MZN709m), the reinsurance technical margin descended further to 17% (FY16: 42%; FY15: 83%), on the back of a steep decrease in ceded premiums. In this respect, the reinsurers loss and commission ratios equated to a higher 73% and 11% in FY17 (FY16: 53% and 5%) respectively. Nonetheless, reinsurers continued to post healthier technical performance relative to GA Seguros's as evidenced by its lower technical margin of 5% in FY17 (FY16: 42% vs -4%).

Asset management

Table 6: Investments	FY16		FY17	
	MZN'm	%	MZN'm	%
Cash on hand	345.9	23.7	467.6	29.5
Short term deposits	789.0	54.0	547.6	34.5
Government bonds	83.5	5.7	307.9	19.4
Cash and equivalents	***1,218.3***	***83.4***	***1,323.1***	***83.4***
Interest securities	120.0	8.2	73.0	4.6
Investment property	122.8	8.4	189.8	12.0
Non-cash investments	***242.8***	***16.6***	***262.8***	***16.6***
Total investments	**1,461.2**	**100.0**	**1,586.0**	**100.0**

The insurer follows a very conservative asset allocation, with the majority of securities invested in liquid assets. The portfolio grew 9% to MZN1.6bn in FY17 (FY16: MZN1.5bn), accounting for a higher 73% of total assets (FY16: 66%). The average portfolio yield (net of fees) equated to -1% in FY17, having been impacted by substantial foreign exchange losses on current and term deposits following the appreciation of the MZN against the USD given the large quantum of USD denominated deposits in FY17. Looking ahead, GA Seguros is considering implementing currency hedges to mitigate foreign currency losses.

Cash and liquidity
Liquidity is assessed at strong levels, underpinned by a sizable investment portfolio, with a large quantum of assets placed in liquid instruments (FY17: 83%). Accordingly, cash coverage of average monthly claims and technical provisions equated to a higher 25 months and 1.7x at FY17 (FY16: 15 months and 1.5x) respectively. Liquidity metrics are expected to trend within a similar level over the rating horizon.

Banking counterparty exposure
GA Seguros has a formalised allocation policy (aligned with Absa group), limiting exposure to a minimum of five counterparties, all of which must reflect strong credit ratings or have a strongly rated parent. Resultantly, short term deposits were spread across six banking counterparties, with the majority of the deposits denominated in USD. Counterparty concentration risk was evident at FY17, with the single largest counterparty constituting a higher 56% of term deposits (FY16: 27%).

Corporate bonds
The value of interest bearing securities reduced to MZN73m at FY17 (FY16: MZN120m) driven by maturities. Accordingly, the proportion of corporate bonds in the total investment portfolio lowered to 5% at FY17 (FY16: 8%). The securities yield 15% and 22% annually for the 2018 and 2021 maturities respectively.

Investment property
The reclassification of a portion of extra property previously accounted for as owner-occupied (MZN85.9m) to investment property saw the value of investment property increase to MZN190m at FY17 (FY16: MZN123m), with the divergence reflecting revaluation losses incurred during the year. The investment property portfolio comprises two properties namely; Property 9A Golden sands and Property Marginal. The latter is a building in Maputo, partly utilised as GA Seguros's head office, with the other portion rented out. There are no plans for further reclassification of the property over the rating horizon.

Premium debtors
The value of premium debtors totalled MZN123m at FY17 (FY16: MZN187m; FY15: MZN530m), with the notable improvement stemming from the enforcement of stringent credit control policies, along with the insurer's high quality client base. In this regard, the average premium debtor's days lowered to 37 days at FY17 (FY16: 53 days), with no outstanding premium debtors recorded.

Capitalisation

Capital generation

Table 7: Capital position (MZN'm)	FY15	FY16	FY17
Capital O/B	**705.7**	**809.4**	**787.2**
NPAT	103.8	(22.2)	(255.4)
Capital C/B	**809.4**	**787.2**	**531.7**
Solvency margin %)	74.1	70.4	66.8

GA Seguros's capital base continued to trend downwards, reducing to MZN532m at FY17 (FY16: MZN787m; FY15: MZN809m), impacted mostly by losses incurred during the year. An improvement in the capital base to MZN575m is projected in FY18, premised on the anticipated turnaround in operating profitability.

Risk adjusted capitalisation
Risk adjusted capitalisation reduced to a moderately strong range in FY17 from the strong levels reflected previously. This was largely due to the contraction in the capital base to MZN532m at FY17 (FY16: MZN787m), impacted by substantial losses incurred during the year,

although partially offset by a reduction in insurance risk, coupled with very limited exposure to credit sensitivities. In the absence of additional solvency support, risk adjusted capital adequacy may moderate further over the outlook horizon on the back of sustained poor operating performance.

Solvency

The international solvency margin equated to a lower 67% at FY17 (FY16: 70%), with the reduction in the capital base more than offsetting a decline in the net risk base. The international solvency margin is projected to continue trending downwards in FY18, with management targeting a metric of 49%, impacted by envisaged growth in the risk base outpacing expected capital growth. The contraction in the capital base saw statutory solvency margin decline by 15% to 2.9x at FY17 (FY16: 3.4x), although still measuring comfortably above the minimum regulatory requirement of 1x.

Reserving

In terms of claims reserving, GA Seguros follows the higher of the group and the regulatory requirement. Local regulations stipulate a minimum of IBNR provision at 1% and 5% of the current year's net premiums earned for life and non-life business respectively. Reserves for outstanding claims are raised based on historical claims patterns and management's experience. As a percentage of the risk base, the outstanding claims (including IBNR) and the unearned premium reserves amounted to 82% and 15% at FY17 (FY16: 59% and 14%) respectively.

Global Alliance Seguros, S.A.

(MZN in millions except as noted)

Year ended : 31 December		2013	2014	2015	2016	2017
Income Statement						
Gross written premium (GWP)		1,982.8	2,669.6	2,512.2	2,459.8	1,539.8
Reinsurance cession		(1,037.5)	(1,692.8)	(1,419.5)	(1,342.4)	(743.4)
Net written premium (NWP)		**945.3**	**976.8**	**1,092.6**	**1,117.4**	**796.4**
Net UPR movement		(81.3)	(43.3)	(68.0)	54.2	65.6
Net earned premiums (NEP)		**864.0**	**933.5**	**1,024.7**	**1,171.6**	**862.0**
Net claims incurred		(420.5)	(496.2)	(670.6)	(989.0)	(627.9)
Net commission expenses		(151.8)	(164.0)	(216.3)	(231.5)	(193.1)
Operating expenses		(98.3)	(112.8)	(142.1)	(193.9)	(364.9)
Underwriting result		**193.5**	**160.5**	**(4.3)**	**(242.8)**	**(324.0)**
Realised investment income		10.1	14.0	40.5	72.0	113.1
Unrealised investment income		15.1	19.2	72.4	20.5	(18.9)
Other income / (expenses)		(45.3)	37.1	81.6	134.9	19.0
Taxation		(57.1)	(74.5)	(86.4)	(6.9)	(44.7)
Net income after tax		**116.4**	**156.3**	**103.8**	**(22.2)**	**(255.4)**
Other comprehensive income		3.5	0.0	0.0	0.0	0.0
Total comprehensive income		**119.8**	**156.3**	**103.8**	**(22.2)**	**(255.4)**
Fair value movements through SOCIE		0.0	18.7	0.0	0.0	0.0
Balance Sheet						
Shareholders interest		**449.9**	**705.7**	**809.4**	**787.2**	**531.7**
Net UPR		174.8	210.0	173.0	158.3	121.6
Net OCR		113.3	144.3	203.6	661.5	656.4
Other liabilities		515.8	547.6	757.2	595.9	853.9
Total capital & liabilities		**1,253.8**	**1,607.6**	**1,943.2**	**2,203.0**	**2,163.6**
Fixed assets		114.9	111.5	108.1	191.1	101.1
Investments		99.7	118.0	302.0	242.8	262.8
Cash and equivalents		484.0	805.7	879.4	1,218.3	1,323.1
Other assets		555.2	572.4	653.7	550.7	476.5
Total assets		**1,253.8**	**1,607.6**	**1,943.2**	**2,203.0**	**2,163.6**
Key Ratios						
Solvency						
International solvency margin	%	47.6	72.3	74.1	70.4	66.8
Liquidity						
Claims cash coverage	mth	13.8	19.5	15.7	14.8	25.3
Cash / Technical liabilities	x	1.7	2.3	2.3	1.5	1.7
Cash / Technical liabilities (incl. interest securities)	x	1.7	2.3	2.6	1.6	1.8
Average premium debtor days	days	50.2	57.4	69.9	53.2	36.7
Underwriting profitability						
GWP growth rate	%	40.7	34.6	(5.9)	(2.1)	(37.4)
Premium retention rate	%	47.7	36.6	43.5	45.4	51.7
Net incurred loss ratio	%	48.7	53.2	65.4	84.4	72.8
Net commission expense ratio	%	17.6	17.6	21.1	19.8	22.4
Operating expense ratio	%	11.4	12.1	13.9	16.5	42.3
Total expense ratio	%	28.9	29.6	35.0	36.3	64.7
Technical margin	%	33.8	29.3	13.4	(4.2)	4.8
Underwriting margin	%	22.4	17.2	(0.4)	(20.7)	(37.6)
Combined ratio	%	77.6	82.8	100.4	120.7	137.6
Net profitability						
Operating margin	%	23.6	18.7	3.5	(14.6)	(24.5)
Investment yield (excluding unrealised gains / losses)	%	2.0	1.9	3.8	5.5	7.4
Investment yield (including unrealised gains / losses)	%	5.6	4.4	10.7	7.0	6.2
ROaE (excluding unrealised gains / losses)	%	26.0	23.7	4.1	(5.3)	(35.9)
ROaE (including unrealised gains / losses)	%	30.7	27.0	13.7	(2.8)	(38.7)
RoR (excluding unrealised gains / losses)	%	10.7	14.0	2.9	(3.8)	(29.7)
RoR (including unrealised gains / losses)	%	12.7	16.0	9.5	(2.0)	(32.1)
Reserving						
Net UPR / NWP	%	18.5	21.5	15.8	14.2	15.3
Net OCR & IBNR / NWP	%	12.0	14.8	18.6	59.2	82.4

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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.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
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.
Captive Insurance Company	A company owned solely or in large part by one or more non- insurance entities for the primary purpose of providing insurance coverage to the owner or owners.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
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.
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.
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.
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.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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.
Facultative	Facultative reinsurance means reinsurance of individual risks by offer and acceptance wherein the reinsurer retains the “faculty” to accept or reject each risk offered.
Financial Flexibility	The company’s ability to access additional sources of capital funding.
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.
Income Statement	A summary of all the expenditure and income of a company over a set period.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Interest	Money paid for the use of money.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
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.
Loss	The happening of the event for which insurance pays.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
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.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Personal Lines	Types of insurance, such as auto or home insurance, for individuals or families rather than for businesses or organisations.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.
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.
Preference Share	Preference or preferred shares entitle a holder to a first claim on any dividend paid by the company before payment is made on ordinary shares. Such dividends are normally linked to an interest rate and not determined by company profits. Preference shares are normally repayable at par value in the event of liquidation. They do not usually carry voting or pre-emptive rights. Preference shares can be redeemable or perpetual.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Rating Horizon	The rating outlook period
Reinstatement	The resumption of coverage under a policy, which has lapsed.
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.

For a detailed glossary of terms please click here.

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SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process 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, and contested by Global Alliance Seguros, S.A., with no change to the rating decision.

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

- Audited financial statements to 31 December 2017
- Four years of comparative audited financial statements to 31 December
- Full year budgeted financial statements to 31 December 2018
- Unaudited interim results to 30 April 2018
- 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.