

GCR affirms MOZRE Moçambique Resseguros, S.A's rating of BB+(MZ); outlook Stable

Johannesburg, 25 Jun 2013 — Global Credit Ratings has today affirmed the national scale claims paying ability rating assigned to MOZRE Moçambique Resseguros, S.A of BB+_(MZ); with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the international scale rating assigned to MOZRE Moçambique Resseguros, S.A of B; with the outlook accorded as Stable. The rating(s) are valid until 5/2014.

RATING RATIONALE

Global Credit Ratings has accorded the above credit rating(s) on MOZRE Moçambique Resseguros, S.A based on the following key criteria:

MOZRE Moçambique Resseguros, S.A ("Moz Re") was established in 2007, and is the only domestically registered reinsurer in the Mozambican market. The reinsurer's majority shareholders are Malawi Re (51%) and IGEPE (20%), and also include Continental Re (19%) and local insurer EMOSE.

In the absence of any capital accumulation, and against sustained net premium growth, international solvency has rapidly decreased since inception. Furthermore, statutory solvency has persistently declined and was reported well below the regulatory minimum requirement at FYE12. Capital risk is further undermined by sizeable debtor balances, exchange rate volatility, and large per risk treaty retentions. In order to mitigate these concerns, management has advised that Mt33m (around U\$1m) in new capital will be injected from existing shareholders by FYE13 (20% of this amount had already been raised by 1Q F13), albeit this needs to be demonstrated. The conservative investment strategy is deemed appropriate in relation to the underlying risk exposures and the company's relative infancy. Coverage of technical liabilities, however, remains below 1x. In addition, banking counterparty risk is deemed elevated, with over half of cash holdings placed with a low rated entity (60% of FYE12 capital). The majority of Moz Re's retrocession placements on XOL and auto fac are with secure rated entities. While Moz Re's position as the only licensed reinsurer operating in Mozambique was favourably considered, the reinsurer's relative size is an offsetting factor. Furthermore, underwriting performance has been volatile since inception, attributable to erratic earned losses.

The international scale rating is constrained by Mozambique's non investment grade sovereign rating of B+.

Upward movement of the rating could develop following timely receipt of all the proposed capital of Mt33m by FYE13. In addition, a sustained, profitable underwriting trend, through measures implemented to stabilize relative loss experience and address excessive delivery costs, and a de-risking of the balance sheet would be favourably considered. Conversely, persistent underwriting losses, and/or further substantial unrealised forex losses, negatively

impacting capital and key solvency & liquidity metrics could result in a rating action.

NATIONAL SCALE RATINGS HISTORY	
Initial rating (May/2011)	Initial rating (May/2011)
Claims paying ability: BBB _(MZ)	Claims paying ability: B
Outlook: Stable	Outlook: Stable
Last rating (Aug/2012)	Last rating (Aug/2012)
Claims paying ability: BB _(MZ)	Claims paying ability: B
Outlook: Stable	Outlook: Stable
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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

GCR's Criteria for Rating Short Term Insurance and Reinsurance Companies

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

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SALIENT FEATURES 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.

MOZRE Moçambique Resseguros, 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/s has been disclosed to MOZRE Moçambique Resseguros, S.A with no contestation of the rating.

The information received from MOZRE Moçambique Resseguros, S.A and other reliable third parties to accord the credit rating included the latest audited annual financial statements (plus four years of comparative numbers), latest internal and/or external report to management, full year detailed budgeted financial statements, most recent year to date management accounts, the current year retrocession cover notes, debtors provisioning policy document, reserving methodologies.



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