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GA Angola Seguros S.A.

Angola Short Term Insurance Analysis **May 2013**

Security class	Rating scale	Rating	Rating outlook	Review date
Claims paying ability	National	$A_{(AO)}$	Positive	05/2014

Financial data:

(US$'m Comparative)

	31/12/11	31/12/12
KZ/US$ (avg.)	94.0	95.6
KZ/US$ (close)	95.4	96.0
Total assets	118.9	113.9
Total capital	16.4	21.9
Cash & equiv.	42.0	41.1
GWP	134.0	161.7
U/w result	3.5	6.9
NPAT	2.6	4.8
Op. cash flow	n.a.	n.a.

Market share* 16%

Market share based on GWP estimate for 2012

Rating methodologies/research:

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

GA Angola Seguros S.A. ("GA") rating reports, 2007-2012

Rating history:

Initial Rating (08/2007)
Claims paying ability: $BBB+_{(AO)}$
Rating outlook: Stable

Last Rating (07/2012)
Claims paying ability: $A_{(AO)}$
Rating outlook: Stable

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Summary Rating rationale

The rating is based on the following key factors:

- The strong growth trajectory evidenced over the review period has enabled the insurer to establish itself as a leading player in the Angolan insurance industry. This has been supported by strong branding, well entrenched corporate relationships and a high service level offering.
- Sound internal capital generation over the review period has led to a strengthening in key credit protection measures, with the risk adjusted capitalisation measure rising to a review period high in F12. Note is taken of significant solvency relief and protection provided by the reinsurance structure, given the prominence of high value multinational risks.
- Liquidity measures have been maintained at robust levels throughout the review period, underpinned by the adoption of a conservative investment strategy.
- The insurer has consistently registered underwriting profits over the review period, supported by a low claims experience. This is attributable to a disciplined underwriting approach, as well as the relative infancy of the Angolan insurance market. Going forward, domestic market maturation could see a deterioration in claims experience, which may lead to some degree of underwriting margin compression. Furthermore, financial flexibility is somewhat limited by the insurer's high cost base.
- The comprehensive reinsurance programme is led by highly rated counterparties. Maximum net retention on the 2013 XOL arrangements amounts to US$250,000 per risk and event, which at 1.1% of FYE12 capital is considered conservative.

Factors that could trigger a rating action

Positive movement factors: The maintenance of sound underwriting disciplines over the medium term, coupled with increased penetration into the SME and personal lines market, thus reducing reliance on heavily reinsured corporate accounts and improving risk diversification. The achievement of F13 projections, whilst maintaining key financial metrics at similar levels.

Negative movement factors: A deterioration in underwriting performance over a prolonged period, either through prohibitive costs or increasing claims, as the domestic market matures. Further, a material change in the investment strategy and/or increasing capital at risk would likely impact adversely on the rating.

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Fundamentals

GA is 49.9% held by the investment holding company One Alliance Holdings, with the balance owned by four local Angolan investors. The company began operating in Angola in mid-2005, writing mainly commercial risks. The insurer's head office is based in Luanda, with ten branches located across key regions of the country. Management has advised that One Alliance Holdings has signed an agreement for the sale of its 49.9% stake in the business to a prominent African insurance group. However, the deal remains subject to regulatory approval, which could take up to two years from the date of signature (1 December 2011). GCR understands that GA's operating model currently applied will remain unchanged, while the company will also retain its corporate brand image.

Economic and industry overview

Angola's economy posted average yearly growth of 15% between 2002 and 2008, although slumped to 2.4% in 2009, on the back of the collapse of the oil price and global demand. Post the recovery in global activity, GDP growth recovered to 3.9% in 2011, supported by strong non-oil activity and high oil-backed government spending. This trend continued in 2012, with GDP growth accelerating by 7.4% to US$116bn. The Angolan economy remains heavily reliant on the oil sector, which accounts for around 45% of GDP, 79% of government revenue and 90% of total exports. Non-oil related segments (notably construction and mineral exports) have further bolstered economic growth (as evidenced by the 9.1% growth rate of the non-oil sector in F12). Going forward, GDP is forecast to expand by 7.1% in 2013, supported by new investment projects in the mining sector. Inflation softened to 9% in December 2012 (2011: 11.4%), which marked the first single digit reading since 2002, while the average inflation rate declined to 10.3% for 2012 (2011: 13.5%). This can be attributed to measures adopted by government to control inflation, such as reducing supply rigidities and increasing agricultural production. In response, the Central Bank of Angola (BNA) reduced its newly introduced policy interest rate from 10.5% (set in October 2011) to 10.25% in January 2012, thereafter reducing this rate further to 10% at the start of 2013. Previous monetary policy moves from the BNA include a 500bps cut to the required reserve ratio and rediscount rate respectively, from 25% to 20% during 2011. The above notwithstanding, the cost of business operations remains high, given supply constraints, with particular cost pressures stemming from salaries and wages.

The Angola Kwanza has remained fairly stable against the US$, depreciating by 1% year-on-year to close at KZ96.0/US$ at year-end 2012 (2009: KZ89.4/US$). A significant change to currency legislation, which took effect 1 October 2012, requires oil companies to pay for all goods and services supplied by FX based entities out of bank accounts domiciled in Angola (either in KZ or US$). This will then be extended and restricted to only Angolan Kwanza from 1 July 2013. The final measure will come into force on 1 October 2013, when operator companies will have to make all payments for goods and services provided by non-FX based entities from bank accounts domiciled in Angola. Given Angola's foreign currency reserves of $33bn as at December 2012, the implementation of the foreign exchange laws could see liquidity challenges for monetary authorities, and may lead to excessive lending and inflationary pressures. Angola is rated BB- by Standard & Poors.

Industry overview

The Angolan insurance industry is regulated by the Insurance Supervision Institute (with a direct reporting line into the Ministry of Finance) and governed in accordance with the Insurance Act 2007. Key regulatory aspects enforced in this regard include:

- The maintenance of a minimum paid-up capital level of US$10m. This was expected to rise to US$13m by year-end 2013 (although seems unlikely).
- Maintenance of a minimum statutory solvency margin of 33% (calculated as net equity over 30% of GWP for the year).
- Risks arising in Angola have to be placed with a local insurer and a portion of the risk retained, albeit no required minimum is stipulated in this regard.

Compared with other African markets, the Angolan insurance industry is relatively immature, whilst the regulatory environment lacks enforcement on certain issues in GCR's opinion. Following the recent entrance of two new players, there are 13 licensed insurance entities. Total industry GWP for 2012 is forecast to have risen by 11% to US$1bn, with non-life dominating at around US$950m. Insurance penetration is considered low, at less than 1% of GDP, whilst the industry exhibits a high degree of concentration. The largest insurer is AAA, which leverages off its position as the preferred insurance partner of SONANGOL EP (the state owned oil concession holder), commanding a market share of around 40%. Given the size and nature of these risks, the respective premiums are reinsured into global oil pools. As such, the remaining players almost focus exclusively on non-oil business. Note is taken of the disposal of certain non-oil risks by AAA at the start of 2013. Empresa Nacional de Seguros e Resseguros de Angola ("ENSA") is the second largest insurer in Angola (around 37% of industry GWP), focusing predominantly on government projects and all state related aviation business. GA is the third largest player, with a market share of roughly 16% in 2012, supported by a strong brand name, well established global business relationships and high service level offering.

Risk diversification

The majority of GA's business is sourced from the commercial and corporate sectors, representing 95% of GWP in F12 (F11: 97%). A significant portion of these premiums relate to multinational facultative reinsurance arrangements, given the insurer's dedicated focus on

global insurance programmes. In this regard, a higher 57% of gross premiums in F12 (F11: 48%) pertained to heavily reinsured international risks, given growth in volumes from the insurer's largest account on a global construction business (with the relationship established in 2009). Accordingly, client concentration is considered significant, with the largest single entity representing a higher 49% of GWP (F11: 45%). In NWP terms the largest client represented 6% of premiums, a level that is considered moderate. Although personal lines grew by 14%, this book of business continued to constitute a small 5% of GWP in F12. On a net basis, this rises to 18%, compared to 10% in F11. The personal lines market remains largely underdeveloped and is mainly comprised of 3rd party liability motor. From a medium term perspective, management has indicated that this book of business is likely to exhibit further growth, driven by the enforcement of 3rd party liability regulations and take-up of new products. In terms of distribution, most local and international corporates prefer dealing with insurers directly and as such the direct sales channel constituted 66% of GWP in F12. The balance of business is procured through intermediaries, with Aon Angola the single largest broker, accounting for 13% of GWP.

A class analysis follows below. Note is taken of the fact that GWP includes administration fees (charged per Government decree) and policy stamp duty charges & ISS tax. The latter are considered purely pass-through items, with the counter charge reflected under management expenses. In order to analyse the financial performance correctly, GCR has included the administration fees in premium income in the analysis below, but excluded taxes received. Retention is based in terms of GWP (before taxes and admin fees).

Table 1: Premium diversification (%)	**GWP***		**NWP***		**Retention****	
	F11	**F12**	**F11**	**F12**	**F11**	**F12**
Fire	8.9	10.6	12.3	6.7	20.4	(1.0)
Motor	21.5	18.1	51.1	52.6	51.1	52.1
Transport	2.2	11.5	2.7	4.0	15.6	0.3
Engineering	7.4	9.9	7.2	10.6	7.7	5.2
Misc.	15.1	20.0	5.5	9.4	3.8	2.4
Liability	34.5	20.9	10.8	7.0	2.0	1.2
WC	9.9	8.5	10.2	9.0	10.2	4.8
Personal Accident	0.5	0.5	0.1	0.6	(7.0)	8.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**15.0**	**11.5**

* *Premium income plus admin fees (excl. premium taxes).*
*******GWP (before admin fees and taxes), less premiums ceded, as a percentage of GWP (before admin fees and taxes).*

GA's premium composition is prone to a fair degree of volatility, in light of the presence of high value multi-national risks. As such, following the expansion of cover extended to the aforementioned fronted construction account, transport, miscellaneous and engineering classes grew by 553%, 68% and 69% in F12 respectively, accounting for a larger 12%, 20% and 10% of adjusted GWP. Conversely, following the loss of a key account, gross liability premiums reduced by 23% and represented a lower 21% of adjusted GWP in F12 (F11: 35%), which is ascribed to the competitive environment. The loss of the portfolio also impacted on workmens compensation, although this was mitigated by the take-up of new business, with this class representing a smaller 9% in F12 (F11: 10%). Motor grew by a subdued 7%, on the back of sluggish uptake of 3rd party liability cover (as legislation was not actively enforced), as well as a competitive rates environment. Resultantly, the gross weighting of motor reduced to 18% from 22% in F11. This notwithstanding, on a risk adjusted basis, motor's contribution rises to 53%, accounting for the bulk of the portfolio. The remaining net premiums were fairly evenly spread. On the back of organic growth in high value risks, risk retention fell to 12% in F12 (F11: 15%)

Table 2: Loss indicators (%)	**Gross claims ratio***		**Earned loss ratio***		**U/w margin***	
	F11	**F12**	**F11**	**F12**	**F11**	**F12**
Fire	25.3	41.1	3.4	17.8	53.3	33.0
Motor	24.2	37.1	31.5	47.8	32.9	27.2
Transport	23.9	0.6	10.1	0.5	48.9	(48.8)
Engineering	60.1	(26.7)	14.2	3.7	24.9	78.5
Misc.	1.2	2.1	1.9	13.7	(95.9)	(8.3)
Liability	0.3	(2.8)	6.0	0.4	(122.2)	(92.8)
WC	19.2	21.7	7.8	2.8	51.9	40.1
Personal Accident	53.5	0.0	737.6	0.6	(845.4)	(23.0)
Total	**14.8**	**10.2**	**20.1**	**29.2**	**11.6**	**20.8**

*Based on management accounts – before accounting for premium taxes.

Following large commercial property claims reported, fire gross claims incurred trebled to KZ661m, with the loss ratio deteriorating to 41% in F12 (F11: 25%). This was, however, offset by favourable engineering and liability claims recoveries, relating to favourable claims settlements. Gross motor claims rose sharply to KZ1bn from KZ600m in F11, with the respective loss ratio rising to 37% (F11: 24%). Management has attributed this to competitive rates pressure at the underwriting level, as well as claims repair cost inflation. Overall, given the favourable recoveries, the gross loss ratio moderated to 10% in F12 (F11: 15%). On a net incurred basis, however, the earned loss ratio deteriorated to 29% in F12 (F11: 20%; F10: 32%). This was largely driven by the aforementioned jump in motor claims incidences, with the motor loss ratio rising to 48% from 32% in F11. GA believes a sustainable motor earned loss ratio to be around 50-55% in the medium term. Going forward, as the market matures (particularly within the personal arena), a further deterioration in relative loss experience is anticipated, especially amongst commoditised lines.

Competition for business has intensified of late and translated into upward pressure on commission payments. This is reflected in workmens compensation and liability, with a combined net payment of KZ71m recorded in F12 (F11: net inflow KZ61m). The above, combined with the deterioration in the claims environment saw the technical margin fall to 69% in F12 (F11: 79%). This, however, was offset by a 20% reduction in operating costs, which saw the management expense ratio (excluding premium taxes) decline from a review period high of 67% in F11 to 48% in F12. Accordingly, the underwriting margin rose to 21% in F12 (F11: 12%). From a class perspective, profitability remains driven by the dominant motor book, as well as fire and to a lesser degree workmen's compensation. Engineering further supported

underwriting profitability. Liability continued to report an underwriting loss in F12, whilst a marked narrowing of losses was recorded under miscellaneous business. The latter can be ascribed to the profits relating to travel. Cognisance is taken of the fact that operating expenses are apportioned on a GWP basis, which undermines the profitability of heavily reinsured portfolios (such as, liability or miscellaneous).

Asset management

GA employs a conservative investment strategy, with the investment portfolio comprised of low risk cash and cash equivalents. Cash balances were largely unchanged at KZ4bn at FYE12, with FYE11 artificially inflated owing to delays in the remittance of reinsurance payments at the Angolan Central Bank at year-end F11 (amounting to US$22m). These balances were subsequently transferred at the start of F12. In this regard, note is taken of the fact that the Central Bank needs to approve amounts in excess of US$200,000 and that a special Central Bank committee approves amounts above US$2m. Given that most of GA's transactions are undertaken in US$, the bulk of cash reserves (88% at FYE12) are US$ denominated, with the remainder held in Angola Kwanza (12%). The single largest banking counterparty exposure (Banco de Fomento Angola) amounted to 34% of the total investment portfolio, whilst Banco Privado Atlantico and Standard Bank Angola held a smaller 27% each respectively at FYE12.

Table 3: Investment portfolio (KZ'm)	FYE11	FYE12	YoY Δ
Petty cash	5.2	2.4	*(2.8)*
Short term deposits	2,548.0	688.5	*(1,859.5)*
Trading cash	**2,553.2**	**690.9**	(1,862.3)
US$ call investments	*1,449.3*	*3,256.0*	*1,806.7*
Treasury bonds	*0.0*	*0.0*	*(0.0)*
Invested cash	1,449.3	3,256.0	1,806.7
Total investments	**4,002.5**	**3,946.9**	**(55.6)**

The cash portfolio is comprised of call investments and short-term deposits, with the longest duration being 30 days. Liquidity ratios are sound, with the claims cash coverage ratio amounting to 51 months, compared with the four-year average of 33 months. Cash coverage of net technical liabilities equated to 1.5x (4-year average: 0.8x). It has been GA's intention to buy a fully developed office space, with the key determinant being the excessive rentals charged in Angola (which comprises around 13% of GA's forecast expenditure in F13, or US$2.4m). In addition to the savings to be achieved, rental income would likely support higher investment returns. Management has stated that the expenditure would amount to no more than US$7m and would be funded from internal funds. However, the timing of the transaction, if any, remains uncertain. Notwithstanding the benefits of the purchase, the impact on medium term liquidity would be negative.

Note is taken of the fact that 'other current assets' represents a significant 63% of total assets, which is comprised of reinsurance assets (31%), insurance receivables (21%) and other debtors (8%). With regard to reinsurance balances, KZ1.2bn rests with the holding company purely as a diversification strategy, in order to protect against foreign exchange instability in the underlying Angolan market. Contained in other debtors is a KZ575m claims recovery, which is placed in a segregated bank account.

Given the heavy US$ weighting within the portfolio, the investment yield remains constrained by the low interest rate environment. In this regard, the investment yield (excluding foreign exchange gains and losses) softened to 1.4% from 2.1% in F11. This compares with the four-year average of 4.9%. Cognisance is, however, taken of realised profits from the sale of fixed assets in both F09 and F10, which if excluded would see the four-year average investment yield fall to 2.7%.

Reinsurance

Given the insurer's strong participation in the multinational programmes, facultative reinsurance is used extensively to provide capacity extension to the existing treaty limits, equating to an unchanged 75% of cessions in F12. The quality of the underlying cedants on the facultative programme is deemed sound, with 84% of cessions placed with secure rated entities. WINS is the leader with a 48% share of all facultative cessions, followed by Colina Re (28%).

Table 4: Reinsurance programme 2013 (US$'m)	Net retention	Capacity
Surplus (# of lines)		
Fire (25)	1	25
Engineering (25)	1	25
Liability (9)*	1	9
Excess of loss (# of layers)		
General account (2)	0.25	10
Motor, acc. & liability (3)	0.15	10

*Includes general, tenants, public, products, employers & motor 3rd party.

The lead reinsurer across all proportional treaties is international investment grade rated Munich Re, which assumes a 27.5% and 32.5% share on fire and engineering respectively. Colina Re assumes the next largest share, with the remainder of the participants also of sound credit quality. There were no noticeable adjustments made to the treaty reinsurance structure for 2013, with the insurer maintaining previous terms and conditions. GA"s maximum net exposure per risk and event is unchanged at US$250,000, equivalent to 1.1% of FYE12 capital (in US$ terms, at a year-end closing exchange rate of KZ96/US$). Management has advised there are no plans to increase net retentions and overall risk appetite levels going forward.

Table 5: Reinsurance account (KZ'm)	F10	F11	F12
Premium ceded	(5,160.8)	(8,891.3)	(11,927.8)
Claims recovered	(54.3)	1,184.9	632.4
Commission received	384.0	355.3	678.2
Net (transfer)/ recovery	**(4,831.1)**	**(7,351.1)**	**(10,617.1)**

Significant solvency relief continues to be provided by the reinsurance programme, with reinsurance cessions rising by 34% to KZ12bn (eclipsing GWP growth of 23%). This can be ascribed to the strong presence of multinational risks and accompanying growth evidenced over the review period. On the back of the

large engineering claims reversals in F12, claims recoveries reduced. This saw GA transfer a higher KZ10.6bn to reinsurers in F12 (or 89% of cessions), with a cumulative KZ22bn transferred over the review period (average reinsurance technical margin of 77%).

Solvency & reserving

Following regulatory delays for the approval of a capital restructuring (with the application submitted to the Regulator in July 2010), the insurer was granted permission to convert US$3.3m of retained earnings and inject US$0.7m of capital at the start of F12, in order to meet the minimum regulatory requirement of US$10m. Furthermore, on the back of a robust after tax profit, shareholders interest increased to KZ2.1bn at FYE12, translating into a 4-year CAGR of 45% over the review period. This compares to corresponding GWP growth of 71%, although given the volume of facultative reinsurance arrangements (due to the increased prominence of multi-national risks), the growth in the capital base exceeded the risk base growth. Accordingly, international solvency (with the adjusted NWP excluding admin fees and taxes) rose considerably, to a review period high of 154% in F12 (F11: 100%; budget 103%). Statutory solvency equated to 51% at FYE12 (FYE11: 52%), which exceeds the regulatory minimum of 33%. Based on the solvency projections provided by management, the statutory solvency margin is forecast to increase to 67% and 65% in F13 and F14 respectively.

A deterioration in debtors' collection was evidenced in F11, with premiums receivable more than doubling to KZ3.6bn, following an increase in volumes pertaining to personal lines (which traditionally has a less favourable collection profile). However, given the active efforts of management to improve the collections policy, these balances narrowed to KZ2bn in F12. Of these balances, around 10% was outstanding for longer than 180 days, with 50% already provided for in terms of bad debts. Adjusting capital for this amount, the international solvency margin reduces to 140% at FYE12 (FYE11: 88%). Excluding the aforementioned balances to the holding company, the international solvency margin further reduces to 50% at FYE12 (FYE11: 10%). Provisions for unearned premiums are made in accordance with the 365th day method (as endorsed by the ISS), whilst outstanding claims are provided for in full (to the maximum value possible) and adjusted downwards pending the finalisation of the transaction. Relative to the risk premium base, the UPR and OCR equated to 60% and 138% in F12 respectively (F11: 51% and 130% respectively). When compared to similar size insurers in other African insurance markets, GA utilises a fairly sophisticated risk management framework, derived from its fully integrated underwriting system and external technical support.

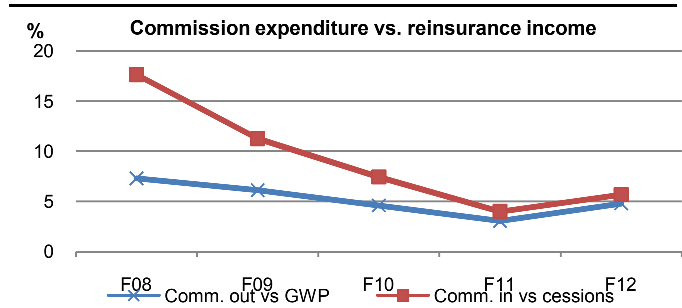
Financial performance

A 5-year financial summary of GA's historical performance is reflected at the back of this report, and brief commentary follows hereafter. The scheme's financial results for F12 were audited by BDO, with an unqualified opinion issued.

Table 6: Income statement (KZ'm)	Actual F12	Budget F12	% of budget
GWP*	**15,467.1**	**15,726.4**	**98.4**
Reinsurance cessions	(11,927.8)	(10,647.0)	112.0
NWP	**3,539.3**	**5,079.4**	69.7
NPE	**3,517.6**	**4,688.7**	**75.0**
Claims (net)	(923.3)	(1,016.1)	90.9
Commission (net)	(62.2)	(82.9)	75.0
Management expenses**	(1,875.4)	(2,632.2)	71.2
U/w result	**656.7**	**957.5**	**68.6**
Investment income	56.8	86.1	65.9
Ratios (%)			
GWP growth	22.8	24.8	
Retention#	22.9	32.3	
Earned loss	26.2	21.7	
Commission	1.8	1.8	
Management expense	53.3	56.1	
U/w margin	18.7	20.4	
Intern. solvency	153.5	102.6	

* Including admin fees and premium taxes received.
** Including premium taxes paid to authorities.
\# Retention ratio unadjusted.

GWP grew by 23% to KZ15.5bn in F12 (4-year CAGR: 71%), driven largely by the aforementioned multinational risks. Excluding these heavily reinsured arrangements, GWP growth amounted to a more subdued 2%, which is attributed to the loss of workmens compensation business and wavering demand for 3rd party motor liability (owing to the inconsistent enforcement thereof). Higher than expected facultative business volumes translated into a lower net retention (both relative to budget and F11), hence net earned premiums were little changed at KZ3.5bn. Excluding fees and taxes, net retention totalled 27% (F11: 35%).



Despite the large commercial fire losses and increased motor claims, gross claims incurred contracted to KZ1.5bn in F12 (F11: KZ1.8bn), mainly owing to engineering claims reversals. However, given the deterioration in motor claims (which carry the highest net retention), the earned loss ratio rose to 26% in F12, from 16% in F11 (previous four year average: 27%). Net commission outflows grew to KZ62m in F12 (F11: KZ28m), or 1.8% of NPE (F11: 0.8%). As seen in the graph below, the cost benefit of the insurer's business strategy has reduced markedly over the review period. This is attributed to the low commission rate on a key heavily reinsured risk pool (4% vs. around 20% on other heavily reinsured risks), as well as increasing competitive pressures on brokerage rates. With regards to the latter, intensifying competitive pressures are likely to exert further cost pressures going forward.

Management expenses remain the key cost item regarding underwriting results. In F11, management expenses advanced by 64% to KZ2.6bn, or 74% of NPE, which included premium taxes (of KZ698m) and a minimum premium deposit (of KZ379m). However, management expenses fell by 27% to KZ1.9bn in F12, or 53% of NPE, which included premium taxes of KZ358m (budget: KZ825m) but excluded the minimum premium deposit payment of KZ128m (which was re-allocated to cessions). This is consistent with GA's audited financial for F11 and F12. In this regard, on an adjusted basis (excluding premium taxes and the MDP premium), the management expense ratio equated to 43% of NPE in F12 (F11: 48%; previous four-year average: 43%). The adjusted operating expenses of KZ1.5bn are driven by salaries, which comprised a larger 40% in F12 (F11: 34%). IT spend (computers) increased by 50%, accounting for 17% of the expense base in F12 (F11: 12%), while rent & accommodation and the management fee paid represented a stable 15% and 11% respectively.

Overall, despite the deterioration in the claims environment, the reduction in premium taxes coupled with the reduced MDP payment saw GA's underwriting profit increase to KZ657m (F12 budget: KZ958m). This translated into an underwriting margin of 19% in F12, compared with 9.3% in F11 (F11 adjusted: 22.6%). Underwriting profitability was further supported by investment income of KZ57m in F12 (F11: KZ51m). After accounting for a KZ250m taxation charge, NPAT totalled KZ464m in F12 (F11: KZ245m), which equated to a ROaE of 25% (Review period average: 26%).

Future prospects

Management is projecting a small decline in GWP to KZ15bn in F13, following strong successive increases over the review period. The relative mix is expected to see a slight shift towards personal lines, following the investments made over the review period. Whilst demand fluctuates for personal motor cover, it is management's belief that initiatives undertaken by the industry and increased enforcement will support growth going forward. As such, GA has made substantial investment in increasing its visibility and widening its footprint, through the expansion of three new branches in 2013 (capitalising on the disposal of the non-oil book by AAA). Furthermore, GA has entrenched strategic partnerships with various banking institutions and key motor dealerships, serving to enhance premium creation. On the back of the shift in the relative business mix, the retention ratio is expected to increase, which will see NPE increase to KZ4.5bn in F13 (F12: KZ3.5bn). The earned loss ratio is expected to increase slightly, to 28% in F13. Management expenses are forecast to rise by 19% in F13, buoyed by premium taxes (which are expected to double). Excluding premium taxes, expenses are forecast to increase by a moderate 2%, with management endeavouring to contain cost pressures. The management expense ratio is forecast to decline slightly to 50% (F12: 53%). The cost savings are, however, expected to be offset by a rise in commission outflows, which would see the delivery cost ratio remain unchanged at 55% in F13. Overall, an underwriting profit of KZ837m is projected, translating to an underwriting margin of 18.6%, which is in line with F12. Shareholders funds are anticipated to grow to KZ2.7bn in F13 (F12: KZ2.1bn), which marks a doubling compared with F10. On the back of the increase in the risk base, however, the risk adjusted capitalisation measure is expected to narrow to 127% in F13 (F12: 154%), albeit remaining sound.

Table 7: Income statement (KZ'm)	**Mar F13 Actual**	**Mar F13 Budget**	**Budget F13**	**YTD as % of F13 budget**
GWP *	**2,802.3**	**2,764.6**	**15,117.2**	**18.5**
NWP	1,261.2	1,087.6	4,620.4	27.3
NPE	**865.0**	**1,045.1**	**4,505.1**	**19.2**
Claims paid (net)	(347.8)	(365.0)	(1,238.0)	28.1
Commission (net)	(126.8)	(58.6)	(198.8)	63.8
Management expenses**	(343.9)	(316.3)	(2,231.7)	15.4
Underwriting result	**46.5**	**305.2**	**836.7**	**5.6**
Investment income	17.8	15.8	86.5	20.6
Shareholders funds	2,149.0	2,315.9	2,707.3	79.4
Key ratios (%)				
GWP growth	(27.5)	(28.5)	(2.3)	
Retention	45.0	39.3	30.6	
Earned loss	40.2	34.9	27.5	
Delivery costs	54.4	35.9	53.9	
U/w margin	5.4	29.2	18.6	
Intern. solvency#	69.3	91.8	127.7	

* Including admin fees and premium taxes received.
** Including premium taxes paid to authorities.
\# Annualised.

For the first three months of F13, GWP amounted to 19% of the full year forecast, albeit exceeding the comparative budget. On a premium earned basis, however, the insurer was below the 1Q budget. A deterioration in claims experience has been evidenced in 1Q F13, with the earned loss ratio rising to 40% (F12: 26%). This is due to the occurrence of a large fire claim, as well as a rise in the motor earned loss ratio to 60% (F12: 48%). Accordingly, management advises that a 20% rating adjustment on certain underperforming portfolios has been implemented (which has since seen the loss ratio improve relative to the first two months of 2013). The delivery cost ratio remains largely unchanged at 55% in 1Q F13. Overall, the underwriting surplus of KZ47m at 1Q F13 notably underperformed budget, translating to an underwriting margin of 5% (F12: 19%). Management advised that the measures implemented in March 2013 should see the underwriting result recover during the year. The annualised solvency margin has narrowed to 69% at 1Q F13 (F12: 154%), due to the higher retention driven by the change in business mix, although a normalisation is expected going forward.

GA Angola Seguros S.A.

(Kwanza in millions except as noted)

Year ended : 31 December		2008	2009	2010	2011	2012
Income Statement						
Gross written premiums*		1 826.1	4,115.3	8,256.0	12,598.0	15,467.1
Reinsurance premiums		(761.1)	(1 923.6)	(5,160.8)	(8,891.3)	(11,927.8)
Net written premiums		**1 065.0**	**2,191.8**	**3,095.3**	**3,706.6**	**3,539.3**
(Increase) / Decrease in insurance funds		(100.0)	(306.4)	(26.2)	(208.4)	(21.7)
Net earned premiums		**965.0**	**1 885.4**	**3,069.0**	**3,498.2**	**3,517.6**
Claims incurred		(429.9)	(728.4)	(848.6)	(561.8)	(923.3)
Commission		13.0	(35.6)	4.4	(28.1)	(62.2)
Management expenses*		(489.0)	(941.3)	(1 573.8)	(2,582.6)	(1,875.4)
Underwriting profit / (loss)		**59.1**	**180.1**	**651.0**	**325.7**	**656.7**
Investment income		25.8	109.3	60.3	50.9	56.8
Other income / (expenses)		0.0	0.0	0.0	0.0	0.0
Taxation		(15.5)	(101.3)	(249.0)	(131.8)	(249.7)
Net income after tax		**69.4**	**188.1**	**462.3**	**244.7**	**463.8**
Unrealised gains / (losses)		(25.1)	94.2	29.3	14.2	13.2
Retained earnings		**44.3**	**282.3**	**491.6**	**258.9**	**476.9**
Dividend in respect of the finanical year		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Balance Sheet						
Shareholders interest**		**481.4**	**790.2**	**1 310.5**	**1,568.8**	**2,107.2**
Unearned premium reserve		194.1	523.2	573.1	797.3	822.0
Outstanding claims and IBNR reserve		724.5	2 754.3	1,427.8	2,045.9	1,894.8
Other liabilities		158.8	1 783.2	1,921.9	6,934.7	6,119.0
Total capital & liabilities		**1,558.7**	**5,851.0**	**5,233.3**	**11,346.6**	**10,943.0**
Fixed assets		23.6	33.6	65.1	72.5	78.1
Investments		0.0	0.0	0.0	0.0	0.0
Cash and short term deposits		713.4	1 363.5	,937.2	4 002.5	3,946.9
Other current assets		821.8	4 453.8	4,230.9	7,271.6	6,918.0
Total assets		**1,558.7**	**5,851.0**	**5,233.3**	**11,346.6**	**10,943.0**
Key Ratios						
Solvency / Liquidity						
Risk adjusted capitalisation **	%	66.8	60.4	80.9	99.8	153.5
Adjusted international solvency margin #	%	n.a.	n.a.	79.8	87.9	139.5
Statutory solvency margin (*calculated in US$)*	%	103.2	81.6	67.4	51.8	51.4
Financial base	%	93.8	100.4	116.2	150.5	213.4
UPR / NWP	%	26.9	40.0	35.4	50.7	59.9
OCR / NWP	%	100.6	210.6	88.1	130.1	138.0
Average debtors days	days	77.9	73.6	76.4	102.9	46.9
Cash & equivalents / Net technical liabilities	X	0.8	0.4	0.5	1.4	1.5
Cash claims cover	months	19.9	22.5	13.3	85.5	51.3
Efficiency / Growth						
GWP Growth	%	90.3	125.4	100.6	52.6	22.8
Retention ratio (adjusted)	%	71.9	67.8	45.6	35.4	26.6
Earned loss ratio	%	44.5	38.6	27.7	16.1	26.2
Commissions / Earned premiums	%	(1.3)	1.9	(0.1)	0.8	1.8
Management expenses / Earned premiums	%	50.7	49.9	51.3	73.8	53.3
Management expenses / Gross premiums	%	26.8	22.9	19.1	20.5	12.1
Underwriting result / Earned premium	%	6.1	9.6	21.2	9.3	18.7
Trade ratio	%	93.9	90.4	78.8	90.7	81.3
Profitability						
ROaE	%	16.0	29.6	44.0	17.0	25.2
Investment yield (including unrealised gains)	%	0.1	19.6	7.8	2.6	1.8
Investment yield (excluding unrealised gains)	%	4.6	10.5	5.2	2.1	1.4
Operating						
Effective tax rate	%	18.3	35.0	35.0	35.0	35.0
Dividend cover	X	n.a.	n.a.	n.a.	n.a.	n.a.

** Includes admin fees and stamp duty and ISS tax*

*** Excludes intangible assets,with premium income adjusted for admin fees and duty charges.*

 # Adjusted for debtors over 120 days in arrears.