GA Angola Seguros S.A.

Angola Insurance Analysis **April 2008**

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	Kwanza	A-	No	07/2009

Financial data:

(US$'m Comparative)

	31/12/06	31/12/07
KZ/US$ (ave)	80.4	77.0
KZ/US$ (close)	80.6	74.7
Total assets	5.7	17.5
Total capital	1.2	5.2
Cash & equivalents	2.2	5.3
GPI	8.9	12.5
U/w result	(1.2)	3.8
NPAT	(1.1)	3.9
Operating cash flow	2.9	1.0
Market cap.	n.a.	
Market share*	12%	

*Based on estimate for "non-oil" insurance market as at 31 December 2006.

Fundamentals:

GA Angola Seguros S.A. (GA Angola) is 49.9% held by the international investment holding company, Global Alliance Holdings. The company began operating in Angola in mid-2005, writing mainly commercial risks. The company's office in Luanda has full operational capabilities, further supported by technical expertise at group level.

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Rating rationale

The rating is based on the following key factors:

- GA Angola has grown market share rapidly, underpinned by its first to market status and significant operating capacity.
- The counterparties to the reinsurance programme are of a high credit quality. The programme attracts a high premium, borne out by the addition of an AA+ internationally rated European reinsurer.
- Market conditions are very favourable (from a growth and underwriting point of view) and accordingly, margins are likely to be sustained in the medium term.
- The company is growing its managerial capacity in order to take advantage of market opportunities.
- The company adopts an aggressive risk capital philosophy, retaining motor and workmens compensation for net account.
- Cognisance is taken of potential growth strain on the company, notwithstanding reinsurance support. This is exacerbated by the lack of a long and stable underwriting trend (volatility brought about by the high growth high inflation environment).

Solvency and liquidity

GA Angola was initially capitalised with US$6m (KZ543m) in 2005. Consecutive losses in the start-up phase reduced capital to KZ94m in F06 (intangibles set-off against capital as per GCR's methodology). The accumulated retained deficit of KZ257m was extinguished in its third year of operation, with the company delivering profits of KZ300m in 2007. Accordingly, the international solvency ratio has increased from 27% in 2006 to 64% in 2007. The reinsurance programme, led by Munich Re, provides additional support to the capital base. Liquidity indicators have improved over the last year, with claims cash coverage increasing from 13 months to 35 months. This is expected to decline to 30 months in 2008.

Economic structure

GDP growth continues to increase, consolidating the country's position as the fastest growing country in sub-Saharan Africa, increasing at 15% per annum. However, the following aspects of the economy are pertinent:

- The disproportionate rate of capital investment in the oil and related services sector continues to fuel inflation, as the economy fails to absorb excesses. Although the hard currency targeting by government is addressing this, with inflation falling to 12% in 2007 (includes gas in the basket measure), the economic activity of those employed in the services sector will continue to keep inflation high.
- The wealthiest 10% of the population account for 30% of gross national income.
- The construction sector is forecast to grow strongly, with 3 large Portuguese companies dominating the share of current projects, which does cause bottlenecks.
- The cost of doing business in Angola is prohibitive. By way of example, wholesale insurance & reinsurance brokers require capital of US$200,000, insurance brokers US$50,000 and agents US$10 000 to obtain a licence.

Competitive environment

Shortly after independence, the insurance industry in Angola was nationalised and Empresa Nacional de Seguros e Resseguros de Angola (ENSA) became the sole insurance company in the market. A new insurance law was passed in 2000, which liberalised the insurance market and put an end to ENSA's monopoly. Five additional insurers have since entered the market. Most are recent entrants, having obtained their licences in 2005 and 2006, and are not yet operating at full capacity.

The minimum capital requirement for insurers is currently set at US$6m, although this is expected to increase to US$10m in 2010 and further to US$13m in 2013.

GA Angola has already gained a foothold in the "non-oil" insurance market, garnering around 12% market share. The company has demonstrated considerable success during the start-up phase in respect of:

- Design and take up of US$ insurance policies at premium rates.
- Acquisition of large premium on a small file size.
- Goodwill arising from bringing private capacity to the insurance market.
- Expected increase in multinational investment and bi-lateral trade.
- International broker support. Although this is high, given the growth of the market, it results in overweighting of broker portfolios.

The competitive environment remains buoyant as companies focus on building an underwriting base in a fast growing market. In this regard, AAA focuses on oil business and ENSA focuses on government funded projects, both of which pose the greatest threat to GA Angola, given the latter's ability to secure considerable government business and AAA's significant capacity and long standing relationships with brokers, clients and reinsurers. Failing a more dominant insurance broker presence, the insurers will continue to build equity in the purchasing base, which already demonstrates high loyalty factors.

Motor business

With fuel being subsidised, the number of vehicles on the road in Luanda has escalated. However, at present around 95% of total vehicles driven are uninsured. Sums insured are calculated using a depreciation schedule due to the lack of market practice in respect of setting tradable values of vehicles. The theft rate in Angola is extremely low, accordingly the rate is a function of the accident/cost of repair. In this regard, the cost of repair is significant. Other insurers have invested in this downstream industry, which has proved largely unsuccessful (in respect of sourcing parts and improving repair efficiency).

Property business

Flooding exposure relates to poor historical town planning (no allowance for natural seepage), although Government have recognised this (the Luanda Sol project is an example of where this is being rectified). The new projects, which at tender stage require insurance, provide significant growth opportunities to the market. Commercial use facilities, mostly head offices for foreign companies, are insured at full value, however, this business in the most part remains funded offshore.

Worker compensation

In terms of the WCA class, the Commissioner sets rates, whilst liability is carried by the private sector, with cover including injury obtained when travelling to and from work.

The exposure to the company is under-declaration of wages by the insured employer; although the company receives wage rolls – by law 6 monthly, (also submitted to social security office), which is a likely mitigant. Possible abuse lies in claims, where collusion with service providers could inflate claims. In addition, the differing basis of provision for liability by the various carriers makes comparison of loss performance (as a guide to future claims experience i.e. reserving) difficult, although less so in respect of the medical expenses cost. By way of example, some insurers adopt a pay-as-you ago basis of provisioning, whilst GA Angola uses capitalised value of pension (which is far more conservative – with 70% of the liability expensed upfront). The reinsurers, however, insist on pricing for this risk using statutory tariff tables, independent of cedents' pricing, and accordingly, GA Angola has elected to retain the risk to net account. Additionally, reinsurance contracts would require some inflation protection (specifically against medical costs) or a forced put of the liability back to the insurer.

The law provides for the following benefits:

- Temporary Total Disability (TTD) for a maximum of 2 years, where after it converts to permanent total disability (PTD). No provision in the law provides for the Ministry of Labour to approve computation by the insurer or for compulsory increases to pensions awarded. A statutory body determines the degree of disablement. The liability is estimated as follows:
    - In the case of TTD: up to 65% of salary
    - In respect of PTD: from 80% up to 100%
    - In respect of customary disability: 50-70%
    - Partial permanent: 70% on reduction in general earning capacity
    - In respect of death: 80% of salary.
- All medical expenses for 30 days, and 75% thereafter if the situation persists.
- Occupational disease resulting in pathological health change due to occupational risk factors.

Oil business
This business, which is mostly reinsured into the global oil pools, is very profitable. The premium is of a high absolute value and is underwritten by one government owned insurer. The private insurance market does not anticipate participating in this business, and has therefore focussed their marketing efforts on the non-oil market.

Risk diversification

Underwriting has remained primarily confined to commercial business, accounting for approximately 98% of GPI. This is expected to fall, notwithstanding high growth (asset and liability accumulations) of domiciled corporate buyers, as the company adjusts its focus to the high-end individual market. The largest account currently comprises 10% of premium income, although as a result of the growth of the overall book, this will reduce to 7% in 2008. Although it is mostly reinsured, the administration fees and the reinsurance commissions on this book are estimated to have generated 8% of earnings in 2007. The direct book is expected to increase significantly, to 25%, as the company implements an advertising campaign. GA Angola wants to add a medical insurance offering to its portfolio, as this is deemed a weakness of its competitors.

At present, there are 3 main players in the broker market, namely AON Angola, JLT Risk Solutions and Angorisk, although there are a handful of smaller brokers that offer promise. GA Angola's growth relies heavily on the support of the larger broker groups operating in the Angolan market, with the bulk of business (around 50%) sourced through the two largest brokers. Agents generated around 8% of premiums in 2007.

GA Angola largely operates three classes of business. The fire, motor and workmen's compensation (WCA) classes cumulatively accounted for 69% of GPI (F06: 82%), while the engineering class accounted for a further 13.5% (F06: 11%). From a net retention perspective, motor and WCA are substantially retained (85% of NPI), generating the bulk of the profits.

Table 1: Net premium income (%)	**2006**	**2007**
Motor	45.0	54.1
Fire	9.6	6.5
Engineering	4.7	6.9
Liability	2.0	1.3
WCA	36.4	30.3
Other	2.2	0.9
Total	**100.0**	**100.0**

Claims as a percentage of earned premiums amounted to 62% in F06, and in F07 declined to 23%. A contributory factor to this improvement was the 33% growth achieved by the company and the associated increase in administration fees. In particular, the WCA and motor classes posted loss ratios of 75% and 73% respectively in 2006, falling to 29% and 18% respectively in 2007.

Table 2: Net underwriting result (KZ'm)	**2006**	**2007**
Motor	(33.8)	102.6
Fire	(39.8)	29.6
Engineering	(10.0)	21.9
Liability	(1.7)	11.4
WCA	(19.5)	122.2
Other	(1.9)	4.8
Total	**(106.9)**	**292.5**

Note: Provided by management and calculated using a monthly rate of exchange

The volume uplift in F07 has substantially bolstered underwriting results, from a loss of KZ166m in 2005 into a profit of KZ294m for the year under review.

In terms of the WCA, which represents the majority of profits, analysis of claims since inception reflects that the highest claim submitted amounted to $100,000 (still outstanding), with the top ten claims averaging $29,000 over this period (excluding the $100,000 claim).

Table 3: WCA (KZ'm)	Premium	Claims incurred	Claims paid
F06	119.4	83.5	10.2
F07	132.1	5.9	21.6

Reinsurance

Reinsurance protection on both proportional and non-proportional treaties is lead by Munich Mauritius Re with 25% participation, and includes Africa Re (20%), Arig (10%), Scor (15%), Swiss Re (20%) and ZEP Re (10%). The company has replaced Everest Re with Arig and Scor.

Proportional treaties

Table 4: Reinsurance (US$)	Net retention	Limit	Natural perils event limit
Fire first surplus*	500,000	5.5m	30m
Fire second surplus*	500,000	5.5m	30m
Eng. first surplus (material damage)	500,000	5.5m	30m
Eng. second surplus (material damage)	500,000	5.5m	30m
Eng. surplus (liability)	500,000	5.5m	n.a.
Gen. acc. & liability surplus	200,000	600,000	n.a.
Personal acc. & stated benefits (any one life)	200,000	600,000	n.a.
Personal acc. & stated benefits (any one accumulation)	600,000	1.8m	n.a.
Liability	500,000	1.5m	n.a.

Note: A loss occurrence in respect of natural perils relates to individual losses arising out of and directly as a result of one and the same event.
**Subject to a minimum PML factor of 50% and inward facultative acceptances of 50% of capacity*

Non-proportional treaties

Table 5: Excess of loss – Max net retentions	US$
Fire	500,000
Engineering	500,000
Miscellaneous accident	500,000
Motor own damage	500,000
Motor third party liability	500,000
General liability	500,000
Personal accident - Any one life	500,000
Personal accident - Known accumulation	1,500,000
Workmens Comp. - Any one life	500,000
Workmens Comp. - Known accumulation	1,500,000
Goods in transit	500,000
Marine cargo and hull	500,000

The excess of loss treaty covers losses between US$100,000 and US$10m and is subject to the specified max net retentions by class (applicable to per risk and multiple risk events), with 2 reinstatements. The company has increased net retentions that it is allowed to write to, from US$200 000 to US$500 000 on misc. accident and motor own damage, PA, WCA and marine and GIT. Also the marine, general accident and WCA surplus has been cancelled.

A significant increase in reinsurance portfolio transfers was posted in F06. In F07, the company reported a reinsurance profit of KZ43m, due to a significant recovery in claims.

Table 6: Reinsurance trade-off (KZ'm)	2006	2007
Premium ceded	366.1	375.8
Commissions received	(33.7)	(57.5)
Claims recovered	(0.2)	(360.8)
Net result	**332.2**	**(43.5)**

Capital adequacy

GA Angola was initially capitalised with US$6m (KZ543m), of which US$4m was cash, with the remainder comprising the company's proprietary IT system. The losses incurred during F05 and F06, however, resulted in a US$3.3m (KZ257m) erosion in capital. GA Angola reported a profit in 2007, its third year of operations, which served to extinguish all accumulated losses, propelling capital to KZ386m or US$5.2m. The solvency margin has increased from 27% in 2006 to 64%.

The company adopts a two tier risk stance; taking 100% of risk to the net account on motor and WCA based on perceived risk dilution (clients are typically corporate's practising international best practise protocols in risk management), whilst accepting small proportional risk in line with reinsurance capacity to large individual exposures (i.e. property), instead benefiting from very profitable policy administration fees. This strategy fuelled the results reported in F07, and will be followed going forward in order to achieve the capital requirement of US$10m by 2010.

Asset management

The investment portfolio comprised entirely of unencumbered cash holdings as at F06, amounting to KZ399m (F06: KZ181m), of which around 99% is held in US$'s. Due to the company's investment policy, liquidity indicators are strong, with claims cash coverage at a more than comfortable 35 months, from 13 previously. This is expected to decrease in F08, to 30 months.

Cognisance is taken of an amount of KZ154m (US$2m) currently shown in debtors, which relates to a financial reinsurance asset.

Financial performance

The company's financial performance for its first 7 months of operation in F05 and full year performances for F06 and F07 are reflected at the back of this report and brief commentary follows hereafter.

The delivery cost was 23% below budget in F07, whilst other income (predominantly policy admin fees) was 19% above budget, delivering significant operating performance gains in 2007.

Table 7: Revenue statement (KZ'm)	Actual 2007	Budget 2007	% of budget
Insurance revenue	**412.8**	**326.2**	126.5
Net claims	(136.6)	(152.9)	89.3
Delivery costs **	(171.1)	(221.6)	77.2
Other income *	173.9	145.6	119.4
Profit/(loss) before tax	**279.0**	**97.2**	**287.0**

* Includes policy administration fees, stripped out from gross premiums.
** Includes amortisation costs

Gross premium revenue increased by 34% to KZ959m in F07, or US$12.4m. Whilst gross premiums came in 40% above 2006 (at US$10.2m), the policy administration fees increased by 23% (to US$2.2m). Following lower reinsurance cessions and premium reserve transfers (including linear WCA fund transfers), earned premiums were 114% up on last year and amounted to KZ584m. Despite increased volumes and lower cessions to reinsurers, net claims incurred totalled KZ137m (F06 KZ119m), 20% lower than the previous year. This translated into a loss ratio of 23% (F06: 62%). Management costs amounted to KZ153m, a 14% decrease on the prior year, equating to 36% of earned premiums (65% in F06). The underwriting result of KZ294m was the primary driver of the high 79% ROaE in 2007.

Future prospects

Premium growth is projected to accelerate to KZ1.5bn from KZ959m in 2007, an increase of 57%. Against earned premiums of KZ822m, the loss ratio is projected to be unchanged at 25% but delivery costs will increase to 30%. This would translate into an underwriting profit of KZ374m, with investment income doubling to KZ38.5m. Accordingly solvency would increase to 73% with profit growth matching net premium growth.

Table 8: Income statement (KZ'm)	Actual F07	Budget F08
Gross premium income	959.3	1,502.4
Net premium income	602.2	895.2
Earned premium income	**583.8**	**821.8**
Management expenses	152.8	215.3
Net commission	0.0	26.1
Claims paid	136.6	206.7
Underwriting result	**294.4**	**373.7**
Investment income	20.4	38.5
Net profit before tax *	**314.8**	**412.2**
Ratios (%)		
GPI growth	33.8	56.7
Earned loss ratio	23.4	25.2
Delivery cost ratio	26.2	29.4
Underwriting margin	50.4	45.5
Solvency margin	64.1	72.9

* Management expenses include GCR's write back of amortisation charge

GA Angola Seguros S.A.

(Kwanza in millions except as noted)

Year ended : 31 December		2005*	2006	2007
Income Statement				
Gross premium revenue		36.1	716.8	959.3
Retrocession premiums		(45.6)	(366.1)	(357.1)
Net Premium income (NPI)		**(9.4)**	**350.6**	**602.2**
(Increase) / Decrease in insurance funds		(7.9)	(78.3)	(18.4)
Net premiums earned		**(17.3)**	**272.3**	**583.8**
Claims incurred		(0.9)	(169.2)	(136.6)
Commission		(0.1)	(17.3)	0.0
Management expenses		(147.7)	(178.1)	(152.8)
Underwriting profit / (loss)		**(166.0)**	**(92.3)**	**294.4**
Investment income		0.2	1.3	20.4
Other income / (expenses)		0.0	0.0	0.0
Taxation		0.0	0.0	(14.4)
Net income after tax		**(165.8)**	**(90.9)**	**300.4**
Unrealised gains / (losses)		0.0	0.0	0.0
Cash Flow Statement				
Cash generated by operations			135.1	388.3
Working capital decrease / (increase)			95.3	(300.6)
Cash available from operating activities			**230.4**	**87.7**
Tax paid			0.0	(14.3)
Dividends paid			0.0	0.0
Cash flow from operating activities			**230.4**	**73.4**
Cash flow from investing activities			**(179.1)**	**177.6**
Cash flow from financing activities			**(5.4)**	**1.5**
Net cash inflow / (outflow)			**45.9**	**252.5**
Balance Sheet				
Shareholders interest**		**184.9**	**94.0**	**386.0**
Insurance funds		7.9	86.2	92.8
Life funds		0.0	0.0	0.0
Other liabilities		77.3	279.8	835.5
Total capital & liabilities		**270.0**	**460.0**	**1,314.3**
Fixed assets		15.8	37.3	11.0
Cash and short term deposits		153.8	180.5	399.2
Other current assets		100.4	242.2	904.1
Total assets		**270.0**	**460.0**	**1,314.3**
Key Ratios				
Solvency / Liquidity				
Shareholders funds / NPI	%		26.8	64.1
Financial base	%		51.4	79.5
Cash claims cover	months		12.8	35.1
Insurance funds / NPI	%		24.6	15.4
Efficiency / Growth				
GPI Growth	%		n.a.	33.8
Earned loss ratio	%		62.1	23.4
Commissions / Earned premiums	%		6.3	0.0
Management expenses / Earned premiums	%		65.4	26.2
Underwriting result / Earned premium	%		(33.9)	50.4
Trade ratio	%		133.9	49.6
Operating				
Dividend cover	X		n.a.	n.a.
ROaE			(32.6)	77.8

* 7 month period.

** Excludes intangible assets, profits increased by reversal of amorisation charge.