Economic overview

The Angolan economy is largely dependent on contributions from its oil and gas sector, with growth in domestic GDP estimated at 21% (to US$91bn) during 2007, on the back of rising oil prices. Angola's crude oil production is one of the highest in Africa, rivaling Nigeria. Crude oil accounts for around 52% of GNP, 95% of exports and 80% of government revenues. As a result, most major foreign investments are linked to the dynamics of the oil industry, with domestic investment initiatives being largely confined to the public sector. However, spillover effects into other sectors have gained more significance of late, cemented by a potential US$200m investment in a bio fuel facility and US$200m cement fabrication project.

Economic growth has been further supported by improved inflationary data, with CPIX measured inflation decreasing steadily from 31% in 2004 to 11.8% in 2007. The interest rate corridor set by the central bank of Angola has remained constant since 2007, with an established rediscount rate of 19.6%. This is in sharp contrast to the period leading up to 2007, in which interest rates fluctuated between 150% in 2003 and 95% in 2005.

Table 1: Economic indicators	2002	2003	2004	2005	2006	2007	2008f
GDP growth	14.5	3.3	11.2	20.6	18.6	21.1	11.5
GDP per capita (US$)	806	959	1,322	1,988	2,847	3,758	5,263
Inflation (%)	105.6	76.7	31.0	18.5	12.2	11.8	10.0
Population (million)	14.1	14.6	15.0	15.4	15.9	16.3	16.8

Source: IMF

The domestic currency (the Kwanza) has improved notably in recent years, recording average rates of KZ87.1/US$ in 2006 and KZ77.6/US$ in 2007. In light of the rising oil prices in 2008, the Kwanza improved further, reaching the Angolan central bank target exchange rate of KZ75.2/US$ in July 2008. The currency strength can largely be attributed to efforts by the central bank to link the Kwanza to the US$.

Going forward, the Angolan economy appears well positioned, supported by solid trade agreements with Portugal, China and Brazil. Furthermore, Angola has managed to gradually reduce external debt in recent years, which amounted to an estimated 16% of GDP in 2007 (2005: 40%). However, in light of the current global economic downturn and decreasing oil prices, Angola's growth is expected to slow in the wake of reduced exports. Additional challenges ahead remain the continued development of non-oil sectors, as well as poverty reduction and an improvement of access to basic services. In this regard, it is noted that, despite the strong growth of the domestic economy, Angola ranks in the bottom 10% of most socio-economic indicators. The country is recovering from 28 years of nearly continuous warfare, and it remains beset by corruption and economic mismanagement. Despite abundant natural resources, and rising per capita GDP, it was ranked 161 out of 177 countries on the 2006 UN Development Program's Human Development Index.

Competitive environment

The Angolan insurance market comprises six companies at present. Most are recent entrants, having obtained their licences in 2005 and 2006. The largest insurer is AAA (a 70% private and 30% government owned entity, through the 100% state owned oil company SONANGOL EP), which operates primarily in oil and related business, holding a virtual monopoly in this very profitable market. These premiums are mostly reinsured into the global oil pools. The oil insurance market is estimated at over US$500m, however, no official market statistics exist. The private insurance market does not anticipate participating in this business, and has therefore focussed their marketing efforts on the non-oil market. The second largest insurer is Empresa Nacional de Seguros e Resseguros de Angola (ENSA), which focuses on government funded projects (outside of oil). GA Angola has achieved good success in the non-oil insurance market (estimated at almost US$200m), acquiring around 13% market share in the four years since its inception. In addition to the strong relationships formed with its clients, the company's success can also be attributed to its superior service levels and rapid turnaround times, which is generally lacking in the industry.

The growth of the insurance industry remains inextricably linked to economic performance in Angola, which has sustained a strong growth trajectory in recent years. As such, the competitive environment has been buoyant as companies focus on building an underwriting base in a fast growing market. Brokers play an important role in facilitating insurance in Angola, with roughly half of GA Angola's business sourced through this channel (mainly through the key players in the broker market, namely Angorisk, JLT Risk Solutions and AON Angola). There are currently 5 licensed insurance brokers, many of these with Portuguese and local shareholders. The regulatory environment for brokers is largely underdeveloped, however, initial setup costs are prohibitive by virtue of the fact that wholesale insurance & reinsurance brokers require start up capital of US$200,000, insurance brokers US$50,000 and agents US$10,000 to obtain a licence. There are no locally based reinsurance companies operating in Angola, despite the fact that reinsurance transactions are conducted relatively free of regulation by the supervisory authorities (there are no compulsory cessions actively applied in the market and no legislated minimum retention levels).

Risk diversification

Commercial business forms the mainstay of GA Angola's operations, accounting for over 90% of GPI. In addition, the largest account continued to comprise around 10% of premium income, which management acknowledges as a risk, albeit a declining risk from previous years. Increased marketing initiatives geared towards the personal lines market is expected to see a larger component of individual related business in the medium term, while this will also increase the direct book thereby mitigating broker reliance somewhat. The bulk of premiums are billed annually in advance, although some bi-annual and monthly premiums are accepted (in particular WCA, which provides temporary/permanent disability benefits for injuries incurred at the workplace).

An assessment of premium income reveals that motor, WCA and fire cumulatively comprised 73% of GPI in F08 (F07: 73%). The engineering class contributed a further 14% in F08, unchanged from F07. The motor book is substantially retained, thereby accounting for 68% of NPI in F08. Previously, WCA was largely retained (except for an excess of loss treaty catering for catastrophe cover). For F08 and beyond, GA Angola has elected to reinsure a substantial portion of WCA on a quota share basis. This stems from a management decision to spread some risk away from Angolan banks (mitigating potential future currency risk), thereby enabling the insurer to maintain future obligations in terms of claims in US$. The fire and engineering classes are also substantially reinsured, given the typically high value nature of claims.

Table 2: Premium income (%)	GPI		NPI	
	F07	F08	F07	F08
Motor	31.0	32.1	56.1	68.1
Fire	25.1	20.1	2.0	2.7
Engineering	13.7	13.5	4.8	5.0
Liability	6.8	7.0	2.3	3.4
WCA	16.4	20.4	30.6	12.8
Other	7.0	6.9	4.2	8.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Claims as a percentage of earned premiums have followed a somewhat erratic trend during the short existence of the company's operations. Having reflected a level of 62% in F06, the earned loss ratio fell to 23% in F07, albeit supported by a reversal of claims provisions (relating to an overestimation of claims in F06). In F08, a higher overall claims incidence saw the earned loss ratio rise to 49%. Cognisance is, however, taken of the relatively short history of the company, with management confirming the F08 loss ratio to be a level likely to be closely maintained going forward (with premium volumes now considered to be of sufficient critical mass in order to support the claims experience).

Key contributors to the deterioration in F08 were the motor and WCA accounts, which saw their earned loss ratios increase to 51% and 25% respectively (from 38% and 4% in F07). The engineering class evidenced an improvement in its loss ratio, halving to 10% in F08, although its relatively small contribution to NPI had little bearing on the overall performance.

Table 3: Class performance (%)	Earned loss ratio		U/w ratio	
	F07	F08	F07	F08
Motor	38.3	51.1	33.8	2.3
Fire	5.2	8.8	41.8	(5.5)
Engineering	19.8	9.9	41.0	17.7
Liability	3.4	2.6	43.5	15.2
WCA	3.6	24.8	71.3	8.9
Other	32.0	37.0	10.6	1.1
Total	**23.4**	**48.6**	**44.6**	**6.7**

The aforementioned rise in claims, together with a 14 percentage point increase in the management expense ratio (to 46%) served to severely hamper GA Angola's underwriting performance in F08. This drove a significant reduction in the underwriting margin to 6.7% in F08, from 44.6% in F07. The decline in profitability was evident across all classes of business, with the most severe cases being motor and WCA (the two largest contributors to NPI), which reflected single digit underwriting margins from substantially higher levels of 34% and 71% in F07 respectively. The fire business posted an underwriting loss, from a very profitable position previously.

Reinsurance

Reinsurance protection on both proportional and non-proportional treaties is lead by Munich Mauritius Re with 25% participation, and includes Swiss Re (20%), Africa Re (20%), SCOR (17%), ARIG (10%) and ZEP Re (8%). Facultative cessions (combined fire and engineering) to reinsurers are capped at US$5m (US$15m retained).

Proportional treaties

Table 4: Reinsurance (US$)	Reinsured's net retention	Total treaty capacity	Natural perils event limit
Fire first surplus	600,000	15m	50m
Eng. first surplus (material damage)	600,000	15m	50m
Eng. surplus (liability)	600,000	5m	n.a.
Liability surplus*	600,000	3m	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.
**General & tenants public & products liability, employers liability, motor third party & passenger legal liability.*

Non-proportional treaties

A general account excess of loss program has been structured into four layers that covers losses ranging between US$150,000 and US$12m. Specific net retentions are, in turn, applicable by class (in terms of per risk and multiple risk events). The maximum per risk net retention amounts to US$150,000, or KZ11m (based on current exchange rates), which equates to 2.3% of the insurer's capital base as at FYE08.

GA Angola reported a reinsurance transfer of KZ143m in F08 (F07: KZ50m inflow), following a comparatively lower claims recovery of 63% of premiums ceded (F07: 96%).

Table 5: Reinsurance trade-off (KZ'm)	F06	F07	F08
Premium ceded	366.1	357.1	761.1
Commissions received	(33.7)	(63.9)	(140.6)
Claims recovered	(0.2)	(342.8)	(477.4)
Net transfer	**332.2**	**(49.6)**	**143.1**

Capital adequacy

GA Angola was initially capitalised with US$6m in F05. Large consecutive losses in the start-up phase (and the exclusion of intangible assets from equity[1]) reduced capital to around US$1.1m, or KZ94m, in F06. The accumulated retained deficit was extinguished in its third year of operation, with the company delivering profits in both F07 and F08. Total shareholders interest increased by 25% to KZ481m (or US$6.4m) in F08. Notwithstanding this, noticeably high growth (of 63%) in net premiums saw the solvency margin reduce to 49% in F08, from 64% previously. The financial base ratio was reported at 69% (F07: 80%).

In terms of WCA, the insurer is required to capitalise future potential claims (which are payable as a pension) and then manage these on a decreasing fund basis over a period of up to 40 years. The long term reserving required for WCA claims (which are not required by law to be inflation adjusted) has been the driver behind the fairly large transfers to the UPR. In this regard, insurance funds amounted to 20% of NPI in F08 (F07: 15%).

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. Management has advised that this will be achieved through a rights issue should the minimum level not be attained through profits.

Asset management

GA Angola holds all its investments in cash and cash equivalents (overwhelmingly in US$'s), which amounted to KZ713m (US$9.5m) at the end of F08. This was spread between 13 banks in Angola, including US$3.5m with Bank Formento Angola, US$2m with Bank Milenium Angola and US$2m allocated to Finibanco Angola. While the level of cash holdings is more than adequate to cover claims at present (claims cash coverage was posted at 20 months in F08, from 35 months previously), claims cash coverage is likely to decline if management continues to derive success in driving up new business volumes, or amends its investment strategy.

GA Angola is considering the purchase of a property investment to house its head office in Luanda. Property prices are very high at present, however, there is an oversupply in the market. As such, the company will look to purchase during the latter part of 2009, in the absence of a good opportunity arising beforehand. Through a 50% joint venture with its property investment company, GA Angola could spend between US$4m and US$5m on the property. This will result in a net investment of between US$2m and US$2.5m by the insurer.

Financial performance

The company's financial performance for its first 7 months of operation in F05 and full year performances from F06 to F08 are reflected at the back of this report and brief commentary follows hereafter.

Table 6: Income statement KZ'm)	Actual	Budget	% of budget
Gross premium income	1,745.3	1,502.4	116.2
Reinsurance	(761.1)	(607.2)	125.3
Net premium income	**984.2**	**895.2**	**109.9**
Earned premium	**884.2**	**821.8**	**107.6**
Net claims	(429.9)	(206.7)	208.0
Net commission	13.0	(26.1)	n.a.
Management expenses	(408.2)	(215.3)	189.6
Underwriting result	**59.1**	**373.7**	**15.8**

Gross premium income increased by a significant 82% to KZ1.7bn (US$23.2m) in F08, well above budget of KZ1.5bn. This includes an amount of KZ330m (F07: KZ173m) relating to administration fees, which are fees charged over and above premium (an industry convention). Following cessions to reinsurers and a KZ100m transfer to reserves, earned premiums were posted at KZ884m, from KZ584m in F07. This compares to budget of KZ822m.

Gross claims, inclusive of the outstanding claims provision, increased to KZ907m in F08 (compared to KZ479m in F07), driven by a handful of large fire related claims (the largest claim occurred during September 2008, and totalled around KZ200m on a gross basis). While reinsurance recoveries served to mitigate the losses somewhat, net claims incurred totalled KZ430m in F08, representing a significant 215% increase over the previous year (this was driven by the rise in motor related claims, which are largely retained). This translated into an effective doubling of the earned loss ratio to 49% (F07: 23%).

[1] *It should be noted that, in line with GCR's methodology, the calculation of solvency excludes intangible assets from equity.*

Table 7: Claims incurred (KZ'm)	F07	F08
Claims paid	98.3	477.4
Gross	119.9	611.7
Reinsurance	(21.6)	(134.3)
Change in provision for o/c	38.3	(47.5)
Gross	359.5	295.5
Reinsurance	(321.2)	(343.0)
Claims incurred	**136.6**	**429.9**
Gross ratio (%)	50.0	52.0
Net ratio (%)	22.7	43.7
Earned ratio (%)	23.4	48.6

The insurer posted a KZ13m net commission inflow in F08, from a breakeven position in F07. Management expenses, however, amplified to KZ408m (F07: KZ187m), driving an increase in the management expense ratio to 46% (F07: 32%). This compares to budget of a significantly lower KZ215m, or 26% of earned premiums. The main drivers of expenses were staff bonuses, which totalled KZ97m (US$1.3m) in F08 (budget: KZ9m), or a significant 24% of total expenses. In addition, staff costs amounted to a further KZ75m, compared to budget of KZ43m, as the company geared up to cater for the strong growth in new business (and future expected increase). Other contributors to the expense bill also centred around staff related expenses, including accommodation and other benefits paid to expatriates. Accordingly, driven by the aforementioned higher than budgeted claims and management costs, the insurer posted a much reduced underwriting surplus of KZ59m (F07: KZ260m). This also fell well short of budget of KZ374m. As such, the underwriting margin declined to single digits, from a significant 45% in F07. Following investment income (KZ26m) and the taxation charge (KZ16m), GA Angola posted a NPAT of KZ69m (F07: KZ267m).

Future prospects

Continued strong premium growth is expected in F09, with GPI budgeted at KZ2.6bn, representing growth of 52% over F08. Against earned premiums of KZ1.7bn (91% up on F08), the loss ratio is expected to decrease by 11 percentage points to 38%. In addition, the delivery cost ratio is budgeted at a significantly lower 35% (F08: 45%), driven by a lower relative level of management expenses. If achieved, this would translate into an underwriting profit of KZ457m, or a 27% underwriting margin. Following investment income and budgeted taxation of a significant KZ173m (35% of net profits), the insurer expects to post a net profit after tax of KZ321m (US$4.3m) in F09. Together with existing reserves (and assuming no dividend payments), this would see the company attain the 2010 minimum capital level of US$10m. The rapid increase in premium income would, however, see a marginal decrease in the international solvency ratio to around 45% in F09. However, based on the significant underperformance on an underwriting level relative to budget in F08, expectations for F09 appear aggressive in terms of profitability (although most likely attainable in terms of premium growth). As such, solvency could register well below budgeted levels.

Table 8: Income statement (KZ'm)	Actual YTD*	Budget F09	% budget
Gross premium income	496.7	2,643.9	18.8
Net premium income	336.3	1,774.1	19.0
Earned premium income	**262.1**	**1,687.6**	**15.5**
Claims paid	(89.4)	(646.0)	13.8
Net commission	(8.6)	(70.9)	12.1
Management expenses	(60.7)	(513.8)	11.8
Underwriting result	**103.4**	**456.9**	**22.6**
Investment income	8.3	37.5	22.1
Net profit before tax	**111.7**	**494.4**	**22.6**
Key ratios (%)			
GPI growth	70.8	51.5	
Earned loss ratio	34.1	38.3	
Commission ratio	3.3	4.2	
Management expense ratio	23.1	30.4	
Underwriting margin	39.5	27.1	
Solvency margin	48.5	45.2	

* 2 months ended 28 February 2009; relevant ratios annualised.
Note: Translated at an exchange rate of KZ75/US$.

Relative year to date premiums are slightly ahead of the F09 budget. In addition, better than expected claims and delivery costs supported a KZ103m underwriting profit, or 23% of the full year budget. The unpredictability of management expenses could, however, see the final result fall short of initial expectations.

In terms of growth opportunities going forward, the following provide significant scope for GA Angola:

- Effective 1 April 2009, it became compulsory for all vehicle owners to obtain liability/3rd party insurance. This will serve to enhance GA Angola's growth prospects in this class of business, with only an estimated 10-15% of existing drivers currently insured. Notwithstanding this, the increased exposure to this class is noted.
- The insurer is in the process of releasing a healthcare offering, comprising 2 traditional medical plans. Initial targets for 2009 have been set at 6,000 beneficiaries, which at current pricing would translate to over KZ500m in gross premium income (premiums are payable annually in advance). Net premiums would, however, register significantly lower as GA Angola has entered into a 10/90 quota share agreement for all healthcare premiums for 2009, given the limited predictability and general unavailability of claims patterns in the Angolan market. This will be re-evaluated going forward. Numerous opportunities exist to promote this product to the company's active client base.

GA Angola Seguros S.A.

(Kwanza in millions except as noted)

Year ended : 31 December		2005*	2006	2007	2008
Income Statement					
Gross premium revenue		36.1	716.8	959.3	1,745.3
Retrocession premiums		(45.6)	(366.1)	(357.1)	(761.1)
Net Premium income (NPI)		**(9.4)**	**350.6**	**602.2**	**984.2**
(Increase) / Decrease in insurance funds		(7.9)	(78.3)	(18.4)	(100.0)
Net premiums earned		**(17.3)**	**272.3**	**583.8**	**884.2**
Claims incurred		(0.9)	(169.2)	(136.6)	(429.9)
Commission		(0.1)	(17.3)	0.0	13.0
Management expenses		(147.7)	(178.1)	(186.8)	(408.2)
Underwriting profit / (loss)		**(166.0)**	**(92.3)**	**260.4**	**59.1**
Investment income		0.2	1.3	20.4	25.8
Other income / (expenses)		0.0	0.0	0.0	0.0
Taxation		0.0	0.0	(14.4)	(15.5)
Net income after tax		**(165.8)**	**(90.9)**	**266.5**	**69.4**
Unrealised gains / (losses)		0.0	0.0	0.0	0.0
Cash Flow Statement					
Cash generated by operations			135.1	354.5	128.9
Working capital decrease / (increase)			95.3	(300.6)	7.1
Cash available from operating activities			**230.4**	**53.8**	**136.0**
Tax paid			0.0	(14.3)	(15.5)
Dividends paid			0.0	0.0	0.0
Cash flow from operating activities			**230.4**	**39.5**	**120.5**
Cash flow from investing activities			**(179.1)**	**177.6**	**(18.4)**
Cash flow from financing activities			**(5.4)**	**1.5**	**212.1**
Net cash inflow / (outflow)			**45.9**	**218.6**	**314.2**
Balance Sheet					
Shareholders interest**		**184.9**	**94.0**	**385.8**	**481.4**
Insurance funds		7.9	86.2	92.8	194.1
Other liabilities		77.3	279.8	543.9	883.3
Total capital & liabilities		**270.0**	**460.0**	**1,022.5**	**1,558.7**
Fixed assets		15.8	37.3	11.0	23.6
Cash and short term deposits		153.8	180.5	399.2	713.4
Other current assets		100.4	242.2	612.3	821.8
Total assets		**270.0**	**460.0**	**1,022.5**	**1,558.7**
Key Ratios					
Solvency / Liquidity					
Shareholders funds / NPI	%		26.8	64.1	48.9
Financial base	%		51.4	79.5	68.6
Cash claims cover	months		12.8	35.1	19.9
Insurance funds / NPI	%		24.6	15.4	19.7
Efficiency / Growth					
GPI Growth	%		n.a.	33.8	81.9
Premiums reinsured / GPI	%		51.1	37.2	43.6
Earned loss ratio	%		62.1	23.4	48.6
Commissions / Earned premiums	%		6.3	0.0	(1.5)
Management expenses / Earned premiums	%		65.4	32.0	46.2
Underwriting result / Earned premium	%		(33.9)	44.6	6.7
Trade ratio	%		133.9	55.4	93.3
Operating					
Effective tax rate	%		0.0	5.1	18.3
Dividend cover	X		n.a.	n.a.	n.a.
ROaE	%		(32.6)	69.1	8.0

* 7 month period.

** Excludes intangible assets.