

GA Angola Seguros S.A.

Angola Insurance Analysis

August 2007

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	Kwanza	BBB+	No	07/2008

Financial data:

(US\$'m Comparative)

	31/12/05	31/12/06
KZ/US\$ (ave)	87.1	80.4
KZ/US\$ (close)	89.5	80.6
Total assets	3.0	5.7
Total capital	2.1	1.2
GPI	0.4	8.9
U/w result	(1.9)	(1.3)
NPAT	(1.9)	(1.3)
Market cap.	n.a.	
Market share*	9%	

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

Fundamentals:

GA Angola Seguros S.A. (GA Angola) is 49% held by the international investment holding company, Global Alliance Holdings, which is headquartered in South Africa. 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.

GCR contacts:

Marc Joffe

+2711 784-1771

joffe@globalratings.net

Jovan Stojakovic

+2711 784-1771

joey@globalratings.net

Website: www.globalratings.net

Rating rationale

The rating is based on the following key factors:

- GA Angola has garnered market share rapidly, underpinned by its first to market status and significant operating capacity.
- The reinsurance programme is considered to provide adequate protection, while counterparties 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 remain at year to date levels in the medium term.
- While GA Angola significantly underperformed relative to budget in F06, there has been a sharp turnaround in the first 7 months of F07, with an underwriting profit of US\$1.5m already higher than the initial full year budget.
- Cognisance is taken of the potential growth strain on the company. Notwithstanding reinsurance support, the solvency margin is considered low.

Solvency and liquidity

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 (KZ276m) reduction in capital. The international solvency ratio amounted to a low 27% in F06, although above the minimum regulatory requirement of 15%, while the financial base ratio was reported at 51%. Despite its relatively high operating costs, GA Angola has achieved profitability (as at 31 July 2007). Profitability is expected to start contributing to solvency (35% as at 31 July 2007), however, given the growth trajectory, the company will require increased surplus relief from reinsurers. The insurer's liquidity position was considered to be adequate, at 24 months claims cover. The reinsurance programme, led by Munich Re, provides additional support to the capital base.



Economic structure

For the second consecutive year, GDP growth reached double digits in 2006, driven by strong oil and diamond production. Over the past two decades, Angola has quadrupled its crude oil production and is Africa's second largest oil producer after Nigeria. The sector represents around 90% of exports, 50% of GDP and 80% of tax revenues. With more oil production scheduled to come on stream from existing discoveries, prospects are promising for continued economic growth and foreign direct investment. Estimates project a real GDP growth rate of 23% in 2006/07, with rates of over 13% between 2007 and 2010.

Since the adoption of a stabilisation programme (the "hard Kwanza" policy) in September 2003, the country has recorded rapid declines in inflation, averaging 45% in 2004 and 23% in 2005, falling further to 12.3% in August 2006. The Kwanza has remained fairly stable since mid-2003, averaging KZ83.7/US\$ in 2004, KZ87.1/US\$ in 2005 and KZ80.4/US\$ in 2006. The government's ongoing intervention to support the currency (given substantial foreign currency reserves) will continue to support fixed capital formation.

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 putting 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 Instituto de Supervisao de Seguros (ISS), together with the Ministry of Finance, has undertaken a major programme of legislative reform in respect of the insurance sector. Given the outdated state of the previous legislation, this reform has been widely welcomed and although not yet fully complete, has gone a long way to improving the operation and regulation of the industry. 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.

The size of the non-life insurance market is estimated at around US\$500m and can be segmented into 2 distinct portions. The first is the dominant petrochemical market, accounting for an estimated US\$400m (or 80%) of all insurance business. In terms of an initial legislative requirement, all petrochemical insurance is placed with AAA, a 70% private and 30% government owned (through the 100% state owned oil company SONANGOL EP) domestic insurer. Legislation now dictates a compulsory regime of co-insurance, to increase the national capacity of retention through the participation of all the licensed insurers (due to the large volume of premiums and liabilities that this class of insurance involves). This is expected to take some time (in the region of two years) to implement. GA Angola's share of the petrochemical business is estimated to be around 8% of the net petrochemical risk (once resolved).

GA Angola has already gained a foothold in the "non-oil" insurance market, garnering around 9% (expected to increase to around 12.5% by year end F07) of the US\$100m of non-petrochemical non-life business.

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.
- Market perception of solid ratemaking criteria, reinforced by technical and qualitative support factors.
- Acquisition of large premium on a small file size.
- Goodwill arising from bringing private capacity to the insurance market.

This notwithstanding, operating losses have been higher than initially expected in 2005 and 2006.

Risk diversification

Underwriting has remained primarily confined to commercial business, accounting for approximately 98% of GPI in F06. The largest account comprises 11% of premium income, an improvement over F05 (25%), as a result of the significantly larger book of business. The majority of cover is provided in US\$, in line with market convention, while reinsurance and the bulk of cash reserves are also held in US\$.

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 strategy relies heavily on the support of the larger broker groups operating in the Angolan market, with the bulk of business (F06: 59%) sourced through the two largest brokers. Agents generated around 8% of premiums, while direct sales contributed a further 10%.

GA Angola largely operates three classes of business. The fire, motor and workmen's compensation (WCA) classes cumulatively accounted for 82% of GPI in F06, while the engineering class accounted for a further 11%. From a net retention perspective, however, consistent with the nature of the risks, the fire and engineering accounts are heavily reinsured. In contrast, the company retains the bulk of motor and WCA risks for its own account, which represented a combined 81% of net premium income.

Table 1: Premium income (%) F06	GPI	NPI	Retention ratio
Motor	24.9	45.0	88.4
Fire	37.1	9.6	12.7
Engineering	10.9	4.7	21.0
Miscellaneous	1.8	1.1	29.4
Liability	2.6	2.0	36.8
WCA	20.3	36.4	87.7
Other	2.4	1.2	26.9
Total	100.0	100.0	48.9

Claims as a percentage of earned premiums amounted to 62% in F06. In particular, the WCA and motor classes posted loss ratios of 75% and 73% respectively.

Table 2: Claims (%)	Loss ratio F06
Motor	72.7
Fire	1.7
Engineering	3.9
Miscellaneous	38.2
Liability	5.3
WCA	75.1
Other	73.0
Total	62.1

On its motor fleet accounts, the majority of claims are for road accidents (given the poor state of the roads, driving conditions and traffic flow). It is noted that the motor book is protected using an XOL treaty, which provides a lower level of protection

(for a growing book), with the payoff typically being scenario based. Fire risks are deemed to be total loss scenarios, given that there is inadequate access to water points and emergency services. In terms of WCA, insured parties are paid a lump sum, determined by a regulatory formula. This is essentially based on the future earnings of the insured to a pre-specified age. Given the potentially large sums involved, GA Angola typically focuses on the lower income blue collar workers. Insurers in this class are allowed to price independent of any tariff schedule, as is the case with the non-statutory insurance policies. The reinsurers, however, insist on pricing for this risk, independently of cedents' pricing, and accordingly, the possibility of a price mismatch is elevated.

Reinsurance

GA Angola's small capital base limits its ability to assume large quantities of risk for its own account. Accordingly, the insurer has relatively conservative reinsurance treaties in place. Given the high sums insured of certain large project type risks, together with the limited risk mitigating factors and the cost of replacement, these risks are insured in hard currency (US\$'s).

Proportional treaties

Table 3: Reinsurance (US\$)	Net retention	Limit	Natural perils event limit
Fire first surplus	500,000	5m	30m
Fire second surplus	500,000	5m	30m
Eng. first surplus (material damage)	500,000	5m	30m
Eng. second surplus (material damage)	500,000	5m	30m
Eng. surplus (liability)	500,000	3m	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	2m	n.a.
Marine cargo & hull surplus	100,000	500,000	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.

Reinsurance protection on both proportional and non-proportional treaties is lead by Munich Mauritius Re with a 25% participation level, and also includes Africa Re (20%), Everest Re (20%), Swiss Re (20%) and ZEP Re (15%).

Non-proportional treaties

The excess of loss treaty covers losses between US\$100,000 and US\$10m and is subject to the following specific net retentions by class (applicable to per risk and multiple risk events), with 2 reinstatements.

Table 4: Excess of loss - Net retentions	US\$
Fire	500,000
Engineering	450,000
Miscellaneous accident	200,000
Motor own damage	200,000
Motor third party liability	500,000
General liability	500,000
Personal accident - Any one life	200,000
Personal accident - Known accumulation	600,000
Workmens Comp. - Any one life	200,000
Workmens Comp. - Known accumulation	600,000
Goods in transit	200,000
Marine cargo and hull	100,000

A significant increase in reinsurance portfolio transfers was posted in F06. This follows a KZ321m increase in reinsurance premiums ceded, while claims recovered were marginal. Commissions received in F06 are low in relation to premiums ceded, given the low claims experience, with a deferred profit commission estimated at 25% being rolled forward into the new programme.

Table 5: Reinsurance trade-off (KZm)	F05	F06
Premium ceded	45.6	366.1
Commissions received	(4.1)	(33.7)
Claims recovered	(0.0)	(0.2)
Net result	41.5	332.2

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 (KZ276m) reduction in capital. Despite its relatively high operating costs, GA Angola has achieved profitability post F06, and the company anticipates being able to grow its capital base from internally generated profits going forward.

The international solvency ratio amounted to 27% in F06, above the minimum regulatory requirement of 15%, while the financial base ratio was reported at 51%. It should be noted that, in line with GCR's

methodology, the calculation of solvency excludes intangible assets of US\$1.6m from equity in F06 (net of accumulated depreciation). GCR has, however, considered the associated tax shield, relating to cumulative underwriting deficits. Insurance funds expressed as a percentage of NPI were posted at 25%.

Asset management

Asset management has to date largely been focussed on maintaining adequate levels of liquidity to support operations. In view of this, the investment portfolio was comprised entirely of cash holdings as at FYE06, amounting to KZ335m (F05: KZ154m). Around 99% of total cash holdings are held in US\$'s. Claims cash coverage was registered at 24 months cover in F06.

Management is in the process of formulating an investment policy, providing for a portion of excess cash to be invested in alternative investments. Due to the largely underdeveloped investment market in Angola, property remains the only viable option. This is a particularly attractive investment avenue, given that rentals are fairly substantial in relation to property values.

Financial performance

The company's financial performance for its first 7 months of operation during F05 and full year performance for F06 are reflected at the back of this report and brief commentary follows hereafter. Overall, the company significantly underperformed its budget for F06, on both an income and expense level.

Gross premium income was posted at KZ717m in F06, which fell well short of initial expectations. Following reinsurance cessions and reserve transfers, earned premiums amounted to KZ272m. Claims incurred totalled KZ169m, translating into a loss ratio of 62%. Management expenses amounted to KZ197m, or a high 72% of earned premiums. This negatively impacted profitability, with an underwriting deficit of KZ111m recorded (budget: KZ33m profit). While scope exists to reduce management expenses somewhat, given the relative lack of skills in the Angolan insurance industry, the company prefers to hold excess capacity in anticipation of business growth.

Table 6: Income statement (KZm)*	Budget F06	Actual F06
Gross premium income	1,879.5	716.8
Reinsurance	(1,330.1)	(366.1)
Net premium income	549.4	350.6
Transfer to/(from) UPR	(204.8)	(78.3)
Earned premium	344.6	272.3
Net claims	(344.3)	(169.2)
Net commission	10.5	(17.3)
Management expenses	(256.1)	(197.1)
Underwriting result	(245.3)	(111.3)
Other & invest. income	282.4	1.4
Net income after tax	37.1	(109.9)

Ratio analysis (%)

Premiums reinsured/GPI	70.8	51.1
Loss ratio	99.9	62.1
Commission ratio	(3.0)	6.3
Management expenses	74.3	72.4
U/W ratio	(71.2)	(40.9)

* Translation rate of KZ80 used to convert from US\$'s.

Future prospects

GPI is budgeted to increase by 34% to KZ962m in F07, driven by growth in the fire, motor and WCA classes. Overall, a marked improvement in the management expense ratio, supported by a lower relative level of claims, is expected to support a KZ67m underwriting profit in F07.

Table 7: Income statement (KZm)*	YTD July F07		Budget F07
	Budget	Actual	
Gross premium income	674.6	601.4	961.6
Reinsurance premiums	(349.4)	(207.7)	(436.5)
Net premium income	325.2	393.7	525.1
Unearned premium reserve	(60.5)	(68.9)	(69.2)
Net premium earned	264.7	324.8	455.9
Claims paid	(88.6)	(82.9)	(158.9)
Net commission	(16.8)	(17.9)	(24.2)
Management expenses	(119.9)	(105.1)	(206.1)
Underwriting result	39.4	118.9	66.7
Ratio analysis (%)			
Premiums reinsured / GPI	51.8	34.5	45.4
Earned loss ratio	33.5	25.5	34.9
Commission ratio	6.3	5.5	5.3
Mgmt expense ratio	45.3	32.4	45.2
Trade ratio	85.1	63.4	85.4
Underwriting margin	14.9	36.6	14.6
International solvency	28.0	34.9	34.9

* Translation rate of KZ80 used to convert from US\$'s.

Note: Solvency calculation excludes intangible assets of US\$1.3m from equity.

Premium growth has accelerated rapidly for the seven months ended 31 July 2007 half year. While GPI was reported at a level 11% below budget,

higher than anticipated retention levels saw net and earned premiums well ahead of expectations. Overall, claims costs and management expenses are both below the year to date budget on both an absolute and relative level (to earned premiums). This has supported an underwriting profit well above management's expectations (and already almost double the full year budget), with the full year result anticipated to be even higher. Share capital has more than doubled from the level reflected as at FYE06, to around US\$2.9m (KZ235m), translating into an annualised solvency of 35%.

Key competitive strengths/opportunities include:

- Given the substantial increase in building activity in the country, there are significant opportunities to write CAR business.
- The insurer has already managed to acquire large multinational accounts, on the support of reinsurers. This strategy is expected to continue to drive growth going forward.
- Superior service levels are expected to assist in attracting new business, given the generally low service levels employed at incumbent insurance companies.
- The ability to leverage off the group's experience with startups in other African markets, as well as access to underwriting and technical expertise.

The following risks have been identified:

- The company has yet to be tested on large "cash call" claims scenario.
- The importance of attaining sufficient capital accumulation with the current growth trajectory (although reinsurance support is considered high).
- The company's ability to retain its staff.
- Complying with the minimum capital requirement of US\$10m by 2010.

GA Angola Seguros S.A.

(Kwanza in millions except as noted)

Year ended : 31 December

2005* 2006

Income Statement

Gross premium income (GPI)		36.1	716.8
Retrocession premiums		(45.6)	(366.1)
Net Premium income (NPI)		(9.4)	350.6
(Increase) / Decrease in insurance funds		(7.9)	(78.3)
Net premiums earned		(17.3)	272.3
Claims incurred		(0.9)	(169.2)
Commission		(0.1)	(17.3)
Management expenses***		(147.7)	(197.1)
Underwriting profit / (loss)		(166.0)	(111.3)
Investment income		0.2	1.3
Other income / (expenses)		0.0	0.0
Taxation		0.0	0.0
Net income after tax		(165.8)	(109.9)
Unrealised gains / (losses)		0.0	0.0

Balance Sheet

Shareholders interest**		184.9	94.0
Insurance funds		7.9	86.2
Life funds		0.0	0.0
Other liabilities		77.3	279.8
Total capital & liabilities		270.0	460.0
Fixed assets		15.8	37.3
Cash and short term deposits		153.8	335.2
Other current assets		100.4	87.5
Total assets		270.0	460.0

Key Ratios

Solvency / Liquidity

Shareholders funds / NPI	%	neg	26.8
Financial base	%	neg	51.4
Cash claims cover	months	n.a.	23.8
Insurance funds / NPI	%	n.a.	24.6

Efficiency / Growth

GPI Growth	%	n.a.	1,883.6
Premiums reinsured / GPI	%	n.a.	51.1
Earned loss ratio	%	n.a.	62.1
Commissions / Earned premiums	%	n.a.	6.3
Management expenses / Earned premiums	%	n.a.	72.4
Underwriting result / Earned premium	%	n.a.	(40.9)
Trade ratio	%	n.a.	140.9

Operating

Dividend cover	X	n.a.	n.a.
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* 7 month period, relevant ratios annualised.

** Excludes intangible assets.

*** Includes depreciation charge.