NOSSA – Nova Sociedade de Seguros de Angola, S.A.

Full Rating Report

Rating

NOSSA – Nova Sociedade de Seguros de Angola, S.A.

Insurer Financial Strength	B

Sovereign Risk

Long-Term IDR	B
Local-Currency Long-Term IDR	B

Outlooks

Insurer Financial Strength	Stable
Sovereign IDRs	Stable

Financial Data

Nova Sociedade de Seguros de Angola, S.A.

(AOAm)	2017	2016
Total assets	15,236	11,352
Total equity	3,597	3,105
Gross written premiums	9,730	5,959
Net profit	964	827
Combined ratio (%)	99	93

As of 31 December
Source: Fitch Ratings

Related Research

Fitch Ratings: Angola's IMF Request Underscores Reform Efforts (September 2018)
Fitch Revises Angola's Outlook to Stable; Affirms at 'B' (April 2018)

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Key Rating Drivers

Small but Diversified Insurer: Nossa – Nova Sociedade de Seguros de Angola, S.A. is the fourth-largest insurer in Angola by gross written premiums (GWP), with a market share of around 8%. However, it is small in absolute terms (2017 GWP around USD58 million). As the local currency continues to depreciate in 2018, Nossa will struggle to grow in US dollar terms.

Offsetting its small scale is its diversification by business line. Traditionally Nossa's business was heavily concentrated in motor (2014 GWP: 70%), but it has successfully diversified into health and property. In 2017 motor contributed 28% to overall premiums, with health and property insurance contributing 31% and 22% respectively.

High Investment Risk: Nossa is exposed to significant rises in credit risk that are driven by an increase in sovereign risk due to the large concentration of sovereign investments in its investment portfolio. At end-2017, government securities were around 160% of shareholders' equity. Nossa's investment universe is limited to mainly sub-investment-grade assets. However, from a domestic perspective, Nossa follows a conservative investment strategy.

Supportive Regulatory Capitalisation: Nossa's regulatory solvency margin of 184% compares favourably with peers', and the insurer has maintained coverage of at least 120% of the minimum requirement for each of the past six years. Fitch expects Nossa to remain well capitalised in the medium term.

Nossa scored 'weak' on Fitch's Prism factor-based capital model (Prism FBM) at end-2017, a level commensurate with its rating. The Prism FBM score is driven by investment risk, largely due to the absence of available investment-grade assets, and concentration risk.

Challenging Macroeconomic Environment: Nossa's profitability fell in 2017 due to the high inflationary operating environment as real net income return on equity (ROE) declined to -3%. The Fitch-calculated combined ratio continued to weaken in 2017 to 99%, significantly above the five-year average of 92%. This was partially due to several large claims resulting in a higher claims ratio. Despite this, Nossa's net income displayed some resilience, growing by 17% due to strong investment returns.

Rating Constraints: Nossa's rating does not factor in any support from the controlling shareholder Banco Angolano de Investimentos SA (BAI), one of the largest banks in Angola. However, the rating may be constrained by Fitch's view of the credit quality of BAI. Similarly, Angola's Long-Term Local-Currency Issuer Default Rating (IDR) of 'B'/Stable does not constrain the rating but does reflect the weak operating environment.

Rating Sensitivities

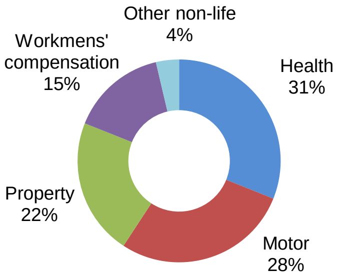
Sovereign Upgrade: An upgrade of the sovereign rating combined with an improvement of Fitch's assessment of the credit quality of BAI could result in an upgrade in Nossa's ratings.

Sovereign Downgrade: A downgrade in the sovereign rating with the corresponding weakening of our view of Nossa's investment risk could result in a downgrade in Nossa's ratings.

Decline in BAI's Credit Quality: A weakening of Fitch's assessment of the credit quality of BAI could result in a downgrade in Nossa's ratings.

Weak Operating Performance: A downgrade could also result from a significant weakening of Nossa's business profile, indicated by a sustained inflation-adjusted decline in GWP or a significant decline in profitability.

Gross Written Premium by Insurance Class
2017



Source: Fitch Ratings, Nossa

Business Profile

Small, Growing Insurer with Modest Market Presence

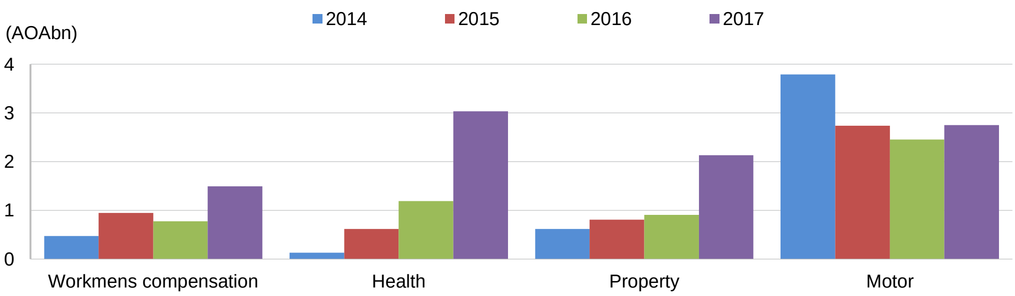
- Well diversified non-life business
- Distribution capability a competitive advantage

Well Diversified Non-Life Business

Nossa is the fourth-largest insurer in Angola by GWP with a market share of around 8% (2016: 6%), but is small in absolute terms (2017 GWP USD58 million). As the local currency continues to depreciate in 2018, Nossa will struggle to grow in US dollar terms. Nossa predominantly writes non-life business through brokers, tied agents and directly through its large branch network.

Despite its small size, Nossa is well diversified. Traditionally its business was heavily concentrated in motor (2014 GWP: 70%), but Nossa has successfully diversified into health, property and workers' compensation lines. This was achieved through a combination of the decline in motor lines due to the difficult macroeconomic environment, offset by strong growth in the health business. In 2017 motor contributed 28% to overall premiums, with health and property insurance contributing 31% and 22% respectively.

GWP Growth by Insurance Class
Main segments - 2014-2017



Source: Fitch Ratings, Nossa

Distribution Capability a Competitive Advantage

Nossa benefits from distributing its products through the second-largest geographic distribution network in Angola, leveraging on BAI's bank branches along with its own branch network to establish a wide presence at national level. The relationship with BAI also leaves Nossa well positioned relative to its peers to expand its bancassurance offering. Nossa has also been actively pursuing opportunities to develop its bancassurance operations with other financial institutions.

In 2017, Nossa established sales teams dedicated to targeting the public sector directly, while also expanding the tied agent network. New distribution channels in the form of travel agency partnerships and telephone insurance selling through a new call centre will contribute to premium growth in 2018 in Fitch's view. Nossa is also investing in developing direct and digital distribution channels.

Nossa's bancassurance operations with BAI currently only focus on a few simple retail life and non-life products. However, Nossa intends to develop this product offering through investment in a new bancassurance platform. The platform will be well integrated into BAI's current platforms, reducing the need to train bank staff in insurance products. The bancassurance channel remains a small contributor to Nossa's overall premium income. However, Fitch views positively the potential for diversification by distribution line.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating. The management team and board of directors have made significant progress since 2012 in improving governance, business processes and reporting.

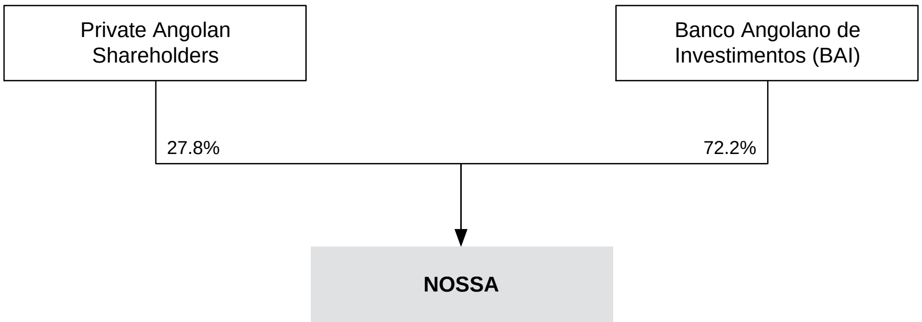
Angola scores poorly in terms of corporate governance on a global scale and we expect governance in the insurance sector to reflect this weakness. The poor degree of governance affects the general business environment in which Nossa operates.

Ownership Neutral to Rating

Nossa, which was founded in 2004, was the third insurance company to start operations in the Angolan market after the country's independence, following state-owned ENSA Seguros de Angola, S.A. and AAA SEGUROS S.A. BAI, which is the largest bank in Angola, in 2012 increased its shareholding in Nossa to become the controlling shareholder. This resulted in significant changes to the board of directors and management, aimed at developing Nossa into a leading Angolan insurer.

Nossa's rating does not factor in any support from BAI. However, Fitch believes BAI could provide support to Nossa if needed, due to the latter's strong profitability in the local insurance market, growth potential and alignment with BAI's strategy. Although Nossa is very profitable in its own right, it is a small net profit contributor to the BAI group, comprising less than 1% of total assets at end-2016.

Simplified Organisational Stucture



Source: Nossa – Nova Sociedade de Seguros de Angola, S.A.

Sovereign and Country Related Constraints

Nossa's rating is constrained by the 'B'/Stable Local-Currency Long-Term IDR of Angola. This reflects the insurer's exposure to sovereign and domestic bank obligations and the weak operating environment.

Industry Profile and Operating Environment

Weak Business Environment

On 25 April 2018, Fitch revised the Outlook on Angola's Long-Term Foreign-Currency IDR to Stable from Negative and affirmed the IDR at 'B' (see *Fitch Revises Angola's Outlook to Stable; Affirms at 'B'* under *Related Research*). The revision reflected improvements in the management of the foreign-exchange regime and the government's adoption of an ambitious reform agenda, which includes monetary, fiscal and structural adjustments that will lessen external vulnerability and improve public finances.

Angola's recent formal request for an IMF support programme highlights the authorities' attempts to accelerate economic and fiscal reforms. An IMF programme that makes public finances more sustainable and further improves the functioning of the foreign-exchange market would support Angola's sovereign credit profile, but reducing the economy's commodity dependence and reliance on government spending remains a long-term process.

Angola's prospects for economic recovery have improved significantly as a result of higher oil prices and the monetary and fiscal adjustments currently being undertaken by the government of President João Lourenço, the country's first new president since 1979. In Fitch's view, the most important development following the transfer of power after the 2017 elections is the exchange-rate adjustment begun by the National Bank of Angola (BNA) in January 2018. The BNA moved to an auction system in which the exchange rate is set by bids from commercial banks, which can submit bids within a +/-2% band of the previous auction's price. The exchange rate immediately depreciated to USD/AOA205 from USD/AOA165 and has continued to fall to USD/AOA301, for a total depreciation of 82% as of the week beginning 1 October.

Higher oil prices and fiscal expansion helped to bring GDP growth to -2.5% in 2017, following -2.6% growth in 2016. Growing oil receipts and an improving operating environment in the non-oil sectors will bring slightly higher growth in the medium term, but Angola will continue to underperform compared with the 10 years prior to 2015 when growth averaged 10.2%. Fitch forecasts GDP growth will accelerate to 2.3% in 2018 and 2.5% in 2019. New oil production will offset the expected decline from ageing fields, keeping output at 1.65 million and 1.67 million barrels per day in 2018 and 2019, respectively. Production is kept down by weak investment in the hydrocarbon sector.

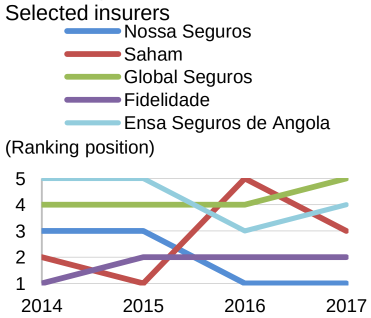
The high inflation that followed the oil price shock is continuing as a result of earlier devaluations and currency shortages as well as higher food price inflation, but has recently moderated. CPI inflation fell to 22.3% yoy in March 2018 after reaching a peak of 42% at the end of 2016 and averaging 32.3% in 2017. Fitch forecasts inflation to increase slightly and average 25% in 2018, reflecting upward pressure from currency devaluation and administrative price increases that are part of the government's fiscal adjustments.

A weak Angolan economy has severely affected the uptake of motor insurance policies during the year. Along with motor insurance, workers' compensation insurance is also compulsory in Angola. However, historically there have been challenges with enforcement of these products, particularly motor. As a result, compulsory lines are less resilient to economic shocks than in developed markets.

The Angolan insurance market is small, with low penetration, a lack of understanding of the benefits of insurance products, and high barriers to entry in specific segments. However, the latent market for non-life, life and savings lines is significant. This potential could be unlocked by a meaningful recovery in the general economy.

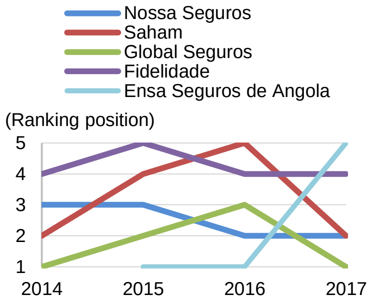
Competition is significant within the industry, and due to economic challenges the non-life market has begun to contract in real terms, led by a reduction in motor insurance premiums. This has been partly offset by strong growth in health insurance.

Return on Equity Peer Ranking
Selected insurers



Source: Fitch Ratings, Nossa

Solvency Margin Peer Ranking
Selected insurers



Source: Fitch Ratings, Nossa

Peer Analysis

Smaller Size but Stronger Profitability than Local Peers

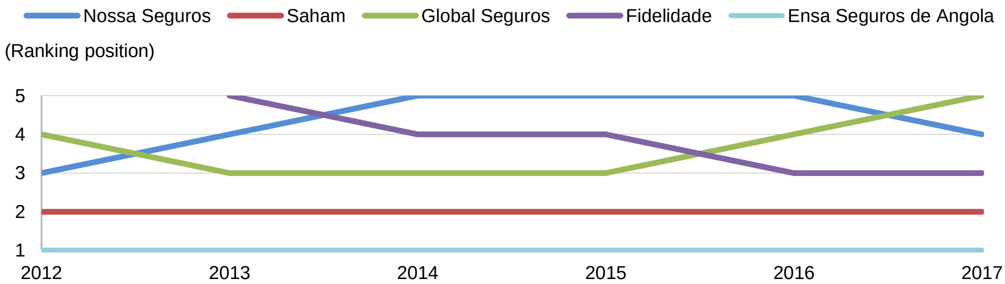
Nossa has established itself among the top five insurers in the Angolan market. It competes against state-owned (ENSA), internationally owned (Saham) and independent insurers. Nossa's relationship with BAI provides a competitive advantage through geographic distribution via bank branches and the opportunity to expand the bancassurance distribution line.

Angola has moved from a single insurance company in 2000 to 26 licenced insurers as of 2018 according to the Angolan regulator ARSEG. The significant competition in the market in recent years has created challenges to pricing discipline.

Nossa lacks the size and scale of ENSA and Saham but compares favourably on profitability. Nossa has led the market with strong, resilient profitability in the face of significant macroeconomic headwinds since 2016. The company has managed to increase its market share relative to most of its peer group, due to significant growth in the health segment.

Nossa has demonstrated agility in reducing its exposure to the declining motor insurance market while diversifying into faster growing segments. We believe business mix is a significant driver of changes in market share, as industry premium growth rates in most lines are not closely correlated.

Gross Written Premiums Peer Ranking
Selected insurers



Source: Fitch Ratings, Nossa

Non-Life Peer Comparison Table – Top-Five Insurers

2017

(%)	Return on equity	Solvency margin	Equity/net assets	Market share
Nossa Seguros	27	164	21	8.4
ENSA Seguros de Angola	6	112	19	37.3
Global Seguros	2	572	36	7.8
Fidelidade	15	115	9	11.8
Saham	12	164	6	16.2

Source: Fitch Ratings, Nossa, ASAN

Capitalisation and Leverage

(AOAbn)	2013	2014	2015	2016	2017	Fitch's expectation
Total shareholders' equity	1.5	1.8	2.2	3.1	3.6	Fitch expects Nossa's capitalisation, as measured by regulatory solvency, to remain strong in the medium term.
Total shareholders' equity (USDm)	15	18	13	19	22	
Total investments	3.8	5.1	6.0	8.1	9.5	
Regulatory solvency margin (%)	132	120	166	195	184	
Net premiums written to equity (x)[a]	1.8	2.0	1.7	1.5	1.8	
Net leverage (x)[a]	3.0	3.2	2.9	2.3	2.6	

Net leverage = (Net written premiums + net technical reserves)/total equity
[a] Includes life
Source: Fitch Ratings, Nossa

Capitalisation Commensurate With Rating

- Strong regulatory solvency
- Net leverage exceptionally strong
- Weak Prism score
- Adequate financial flexibility

Strong Regulatory Solvency

Nossa's regulatory solvency margin of 184% compares well with peers, and the insurer has maintained coverage of at least 120% of the minimum requirement for each of the past six years. Fitch expects Nossa to remain well capitalised in the medium term.

Nossa's dividend policy is cognisant of the regulatory solvency margin. A dividend was declared at end-2017 given the company's strong regulatory capital position.

Weak Prism Score

Nossa's Prism FBM score remained 'weak' at end-2017, a level nonetheless commensurate with its rating. The Prism FBM score is driven by high investment risk, largely because of the absence of available investment-grade assets, and concentration risk. The model assumptions include an add-on for emerging-market risk.

Nossa's Prism FBM score has deteriorated from 2016 as a result of the strong non-life premium growth. This is evidenced by the increase of net written premium to equity in 2017. We do not expect this level of premium growth to continue, and higher retained earnings should lead to a higher Prism FBM score from 2018 onwards, in Fitch's view.

Very Strong Net Leverage

Nossa's very strong net leverage (as defined in the above table) is a positive rating driver. Net leverage deteriorated to 2.6x in 2017, but remains below the five-year average of 2.8x. This deterioration was due to strong growth of net written premium and the associated increase in reserves. Net leverage is a function of reserving, and may weaken should significant reserve increases be required.

Adequate Financial Flexibility

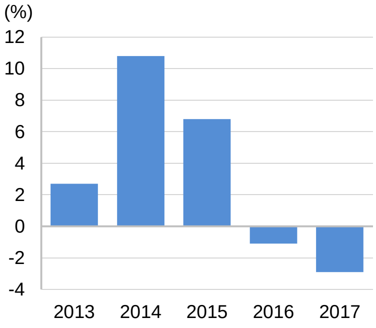
Fitch believes Nossa's financial flexibility is adequate, as its unleveraged position gives it room to access bank funding, if necessary. It also potentially has access to debt funding or expertise in entering the debt market through BAI. Angola does not have a secondary equity market, and debt-market access is limited. These factors constrain financial flexibility.

Financial Performance and Earnings

(AOAm)	2013	2014	2015	2016	2017	Fitch's expectation
Net income[a]	162	297	340	827	964	Fitch expects Nossa's operating profitability to remain under pressure in 2018. However, we expect investment income to continue to offset this.
Return on equity (%)[a]	12	18	17	31	29	
Combined ratio (%)[a]	92	83	91	93	99	
Claims ratio (%)[a]	48	44	46	38	43	
Expense ratio (%)[a, b]	44	39	45	55	56	
Operating ratio (%)[a]	85	77	81	78	82	
GWP growth	29	27	3	7	63	
GWP growth (industry)	11	6	10	5	7	

[a] As calculated by Fitch, including life business
[b] Expense ratio = total underwriting expenses/net earned premiums
Source: Fitch Ratings, Nossa, ASAN, ARSEG

Real Return on Equity



Source: Fitch Ratings, Nossa, IMF

Operating Margins Under Pressure

- High inflation depresses profitability
- Competition drives pricing pressure

High Inflation Depresses Profitability

Nossa's strong GWP growth of 63% in 2017 was driven by the health segment, partially due to tariff adjustments. However, the high inflationary environment has eroded Nossa's profitability through both persistent expense inflation and claims inflation in the health and motor lines. Nossa's real net income ROE declined to -3% in 2017 as inflation in Angola averaged 32% over the period according to the IMF. Despite this, Nossa's net income displayed some resilience, growing by 17% due to strong investment returns.

Nossa's Fitch-calculated combined ratio continued to weaken in 2017 to 99%, significantly above the five-year average of 92%. This was due to the challenging macroeconomic environment in Angola driving persistent expense inflation, whilst claims costs have continued to rise in motor lines due to the devaluation of the local currency affecting imports and price inflation of repairs. Nossa's claims ratio has also weakened in 2017 due to large claims in the Workers' Compensation and Other Material Damages lines. Warehouse fires drove a 46% increase in Nossa's incurred claims, leading to a significant deterioration of the claims ratio to 43% (2016: 38%).

Nossa's extensive use of reinsurance partially offset the impact of the large claims. The rapid expansion of the business has led to increased use of reinsurance with 34% of GWP ceded to reinsurers (2016: 23%).

Competition Drives Pricing Pressure

Nossa's operating margins have declined in 2017 due to increased competition in the Angolan market challenging pricing discipline. Non-life renewal rates have come under pressure leading to weakening profitability despite Nossa's underwriting discipline.

Declining margins have also been driven by Nossa's change in business mix towards lower-margin lines such as health, and an increased focus on commercial business as personal lines decline in the current macroeconomic environment.

Fitch expects Nossa's operating profitability to remain under pressure in 2018. However, following the devaluation of the local currency throughout 2018, we expect Nossa's net income to be supported by positive exchange-rate variations on dollar-linked investments.

Investments and Liquidity

(AOAm)	2013	2014	2015	2016	2017	Fitch's expectation
Risky assets to surplus/equity (%)	259	284	277	262	265	We expect Nossa to maintain a conservative investment strategy.
Liquid assets to technical reserves (%)	201	196	156	169	172	

Source: Fitch Ratings, Nossa

High Investment Risk

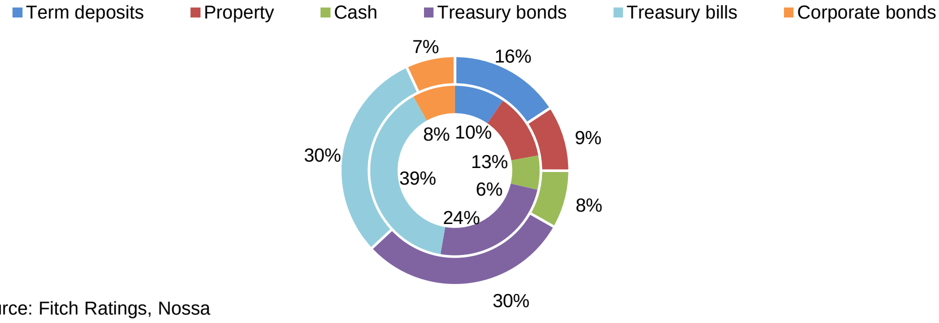
- Sovereign risk drives investment risk
- Strong liquidity position
- Disability lines carry asset-liability mismatch

Sovereign Risk Drives Investment Risk

Nossa's high risky asset ratio follows the limited breadth of the Angolan investment environment, which is limited to sub-investment-grade assets. Nossa is exposed to significant rises in credit risk that is driven by an increase in sovereign risk as 60% of the investment portfolio was invested in government securities at end-2017.

However, from a domestic perspective, Nossa follows a conservative investment strategy, with more than 90% of invested assets held in cash, term deposits or government securities at end-2017.

Investments by Asset Class
Inner ring: 2016
Outer ring: 2017



Source: Fitch Ratings, Nossa

Fitch views favourably Nossa's significant exposure to US dollar index-linked fixed-income securities (30% of invested assets at end-2017), as this provides some currency diversification to its balance sheet. We believe the added FX risk is more than offset by the indirect inflation hedge provided by hard currency investments. The local currency has continued to depreciate throughout 2018, increasing the attractiveness of the US dollar-linked securities.

Strong Liquidity Position

Nossa's liquid assets ratio marginally increased in 2017 following the movement of investments into bank deposit holdings and cash from illiquid property investments.

Longer maturity government bonds increased to 30% of the investment portfolio at the expense of relatively more liquid treasury bills. However, we view this move positively as the loss of liquidity is more than offset by indirect inflation hedging, currently a key risk in the Angola, provided by longer-dated securities.

Nossa's liquid assets ratio is strong for the rating level. The importance of which has been highlighted by the large claims incurred by Nossa due to warehouse fires in 2017. Claims-paying ability is vital in the Angolan market where trust in insurance providers is still low by international standards.

Disability Lines Carry Asset-liability Mismatch

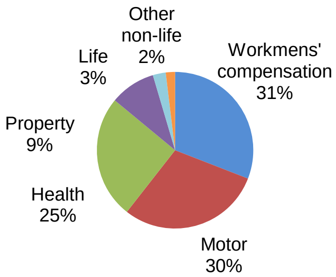
Nossa's workers' compensation policies have an average duration of around 11 years. This significantly exceeds the duration of investible fixed-interest assets available, resulting in an asset-liability mismatch. However, Fitch believes these liabilities are conservatively provisioned for, which partially offsets the interest-rate risk arising from the duration mismatch.

Reserve Adequacy

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Net technical reserves to net earned premium	75	72	62	61	53	Fitch expects Nossa's reserve risk to remain high in the medium term.
Reserve leverage	124	116	114	86	83	
Loss reserves to incurred losses	254	283	135	159	123	

Reserve leverage = loss reserves/equity
Source: Fitch Ratings, Nossa

Technical Provisions by Business Line
2017



Source: Fitch Ratings, Nossa

High Reserving Risk but Adequate Practices

- High reserving risk
- Reserving standards improving but still weak
- Legal reserve adds prudence

High Reserving Risk

Fitch considers Nossa's reserve risk to be high, based on the reserve leverage ratio of 83% (three-year average 95%), and a 'loss reserves to incurred loss' ratio of 123% (three-year average 139%).

Nossa has successfully diversified its business by product line, expanding the health and property segments significantly since 2015. As a result the health business accounted for 25% of overall technical provisions at end-2017 from around 10% at end-2015. Health, motor and workers' compensation business now account for more than 85% of overall technical provisions while concentration in one business segment is significantly reduced.

However, the high inflationary environment is a key risk when reserving for longer-term workers' compensation business.

Reserving Standards Improving but Still Weak

Nossa's technical provisions are calculated using established actuarial techniques by an independent actuarial firm and comply with the minimum requirements set by the Angolan regulator. Despite significant improvement in recent years, Fitch considers regulation of the Angolan insurance market to be weak by international standards.

Legal Reserve Adds Prudence

Angolan insurers are required to apply 10% of their annual net profit to a non-distributable legal reserve, which accumulates up to an AOA200 million limit and adds prudence to insurers' capitalisation. Nossa's legal reserve, before the application of net profit in 2016, was 6% of total shareholder funds and 7% of net claims reserves.

Reinsurance, Risk Management and Catastrophe Risk

Extensive Reinsurance Coverage

- Risk management improving
- Catastrophe exposure limited
- Good reinsurance quality

Risk Management Improving

Fitch considers Nossa's risk management to be supportive of the rating. In 2018 Nossa established a reinsurance division dedicated to managing the reinsurance treaties and all of Nossa's reinsurance needs. The reinsurance treaties are now settled in local currency, removing significant FX risk for Nossa. The treaties are also managed in a timely manner, with negotiation and signing occurring before the end of the year to ensure reinsurance coverage.

Nossa's risk management capabilities have also improved in 2018 with the establishment of a risk committee. As Nossa expands its operations and as the Angolan insurance market develops, we expect further improvements in risk management and a continued shift towards global best practices.

Catastrophe Exposure Limited

Nossa's main catastrophe exposure is to fire and engineering risk. Nossa increased its catastrophe exposure in 2018. However the exposure is still limited, with maximum single-event catastrophe retention of less than 2% of shareholder equity.

Good Reinsurance Quality

Fitch considers the diversification and credit quality of Nossa's reinsurance programme to be prudent and the reinsurers – mainly large global writers – to be of high credit quality. The reinsurance programme is placed with a panel of external reinsurers, all of which have international credit ratings of 'A−' and above. The largest single reinsurance counterparty is Swiss Reinsurance Company (IFS: AA-/Stable).

The strong credit ratings and relative diversity of Nossa's reinsurance counterparties limit the risk of uncollectible balances due to insolvency of any one reinsurer.

Appendix: Other Ratings Considerations

Below is a summary of additional ratings considerations of a “technical” nature, that are also part of Fitch’s ratings criteria.

Group IFS Rating Approach

Not applicable.

Notching

For notching purposes, the regulatory environment of Angola is assessed by Fitch as ‘Other’, as described in Fitch’s insurance rating methodology.

Notching Summary

Holding Company

None.

IFS Ratings

A baseline recovery assumption of ‘Average’ applies to the IFS rating, and standard notching was used from the IFS “anchor” rating to the implied IDR.

Debt

None.

Hybrids

None.

Short-Term Ratings

None.

Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.