RATING REPORT

UBL Insurers Limited

REPORT DATE:
December 28, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	**A+**	**A+**
Rating Date	*Dec 23, '15*	*Nov 13,'14*
Rating Outlook	Stable	Stable
Outlook Date	*Dec 23, '15*	*Nov 13, '14*

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Company	**Chairman of the Board:** Mr.Aameer Karachiwala
Key Shareholders (with stake 5% or more):	**Acting Chief Executive Officer:** Mr. Babar Mahmood Mirza
Bestway (Holding) Limited-55.6%	
UBL-30%	
Abu Dhabi Group-12.2%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/images/methodology.pdf*

UBL Insurers Limited

OVERVIEW OF THE INSTITUTION

UBL Insurers Limited is an unlisted public limited company which commenced operations in January 2007. UIL is a subsidiary of Bestway (Holding) Limited that holds 55.6% stake in the company. Holding of UBL has been maintained at 30% while Abu Dhabi Group holds 12.2% shares. M/s KPMG Taseer Hadi & Co. Chartered Accountants has been appointed as external auditors for 2015.

RATING RATIONALE

The assigned rating reflects adequate capitalization and improvement in underwriting performance of UBL Insurers Limited (UIL) on a timeline basis. Outstanding rating also takes into account the institutional backing of the company, with shareholders comprising one of the largest commercial banks in Pakistan as its major sponsors. UIL reported gross premium of Rs. 1.1b (FY13: Rs. 0.9b) with fire and motor collectively representing 63% of the total in 2014. Over the years, business from related parties has declined to 30.6% (FY13: 34.6%). The company also plans to launch takaful window operations in the coming year. Its impact on future underwriting results will be tracked by JCR-VIS.

Prior to 2014, underwriting operations of the company remained in loss. However, the company earned an underwriting profit of Rs. 23.5m in FY14 and Rs. 38.9m in 9M15. The strengthening in underwriting results is largely attributable to low net claims ratio. Given that proportion of business mobilized from related parties is reducing on a timeline basis, underwriting expense ratio of the company stood higher during 9M15; related party business entails a minimal procurement cost.

UIL has an adequate reinsurer panel featuring 'A-' and above rated reinsurers for both proportional and non-proportional treaties. There were notable changes on the reinsurer panel in 2015 with addition of Emirates International UAE, Echo Re and Korean Re. The company primarily has quota share and surplus treaties in major business segments along with XoL treaty to protect its net retention. Hannover Re is the lead reinsurer in major segments except Special capacity (Fire and Engineering) which is solely covered by PRCL. Treaty capacities along with retention in marine and motor segment were enhanced for 2015. While cession ratio in motor segment remains low, which comprises more than one-fourth of business, overall cession increased in FY14 on account of higher average sum insured.

The company's investment portfolio comprises more than half of exposure in government papers while the remaining is deployed in income funds, debt instruments and listed equities at end-9M15. Since inception, UIL had a conservative stance towards investments with no exposure in the equity market. However, with a change in internal policy in which 10% maximum limit as assigned for investment in listed equities, around 7% of total investment portfolio was invested in stock market at end-9M15. Over the years, investment portfolio has generated steady stream of income and supported the bottom line of the company. Given the portfolio composition, credit and market risk is considered manageable.

Insurance debt amounted to Rs. 449.2m (FY13: Rs. 315.9m), representing 40.3% (FY13: 35.7%) of gross premium at end-FY14. Almost half of this is outstanding from co-insurance balances. Aging profile of insurance debt is considered satisfactory with a major chunk of premium due within 1 year bucket. Adjusted liquid assets as a proportion of technical reserves are considerably high while operating cash flows are also adequately positive. Total adjusted equity (adjusted for market value of investments) increased to Rs. 852.0m (FY14: Rs. 774.5m) at end-September 2015. Given the equity base, operating leverage is relatively on the lower side vis-à-vis most peers and indicates room for growth, assuming risk retention levels do not change materially. However, financial leverage of UIL continues to depict a rising trend on account of higher outstanding premium payables.

UIL has implemented an Oracle based General Insurance Accounting System (GIAS) to support core operations. In tandem with plans to launch takaful window operations, UIL plans to develop a separate module for the same. There was stability at senior management level positions.

UBL Insurers Limited Appendix I

FINANCIAL SUMMARY

(amounts in PKR billions)

BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Cash and Bank Deposits	183.3	231.0	27.6
Investments	509.3	395.1	593.4
Investment Properties	-	-	-
Insurance Debt	449.2	315.9	243.8
Total Assets	2,082.7	1,748.4	1503.9
Net Worth	753.1	693.7	657.6
Total Liabilities	1,329.7	1,054.7	846.2
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Premium Revenue	385.2	341.6	278.0
Net Claims	176.7	207.7	190.5
Underwriting Profit	23.5	(16.8)	(34.9)
Net Investment Income	74.6	70.9	72.4
Profit Before Tax	101.8	55.2	41.6
Profit After Tax	59.8	36.5	28.8
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Gross Premium) (%)	2.0%	1.8%	1.7%
Cession Ratio (%)	63.8%	59.1%	61.2%
Gross Claims Ratio (%)	51.5%	79.6%	69.0%
Net Claims Ratio (%)	45.9%	60.8%	68.5%
Underwriting Expense Ratio (%)	48.0%	44.1%	44.0%
Combined Ratio (%)	93.9%	104.9%	113%
Net Operating Ratio (%)	74.3%	85.4%	88.9%
Insurance Debt to Gross Premium (%)	40.3%	35.7%	31.0%
Operating Leverage (%)	49.7%	49.3%	42.1%
Financial Leverage (%)	106.0%	104.6%	87.0%
Adjusted Liquid Assets to Technical Reserves (%)	87.0%	86.3%	108.8%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA
Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-
Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-
High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-
Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-
Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-
Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC
Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC
Weak capacity to meet policyholder and contract obligations; Risk may be high.

C
Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D
Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	UBL Insurers Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY			
	A+	Stable	Reaffirmed
11/13/2014	A+	Stable	Upgrade
12/10/2013	A	Positive	Maintained
10/19/2012	A	Stable	Reaffirmed
9/19/2011	A	Stable	Reaffirmed