RATING REPORT

Jubilee General Insurance Company Limited

REPORT DATE:
December 29, 2020

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
IFS	AA+	AA+
Rating Date	*Dec 29, '20*	*Dec 31, '19*
Rating Outlook	Stable	Stable
Outlook Date	*Dec 29, '20*	*Dec 31, '19*

COMPANY INFORMATION

Incorporated in 1953	**External auditors:** M/s A.F. Fergusan & Co. (Chartered Accountants)
Public Limited Company	**Chairman of the Board:** Mr. R. Zakir Mahmood
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Hassan Khan
Aga Khan Hospital & Medical College Foundation – 20.6%	
Aga Khan Fund for Economic Development – 14.1%	
Habib Bank Limited – 19.8%	
Hashwani Hotels Limted – 5.5%	
Pakistan Services Limited – 7.6%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – General Insurance (March 2017)
http://vis.com.pk/docs/Meth-GenInsurance201702.pdf

Jubilee General Insurance Company Limited

OVERVIEW OF THE INSTITUTION

JGI was incorporated as a public limited company in 1953. The company is engaged in provision of general insurance services and is listed on the Pakistan Stock Exchange. JGI operates through a network of 28 branches with its Head Office established in Karachi.

RATING RATIONALE

Jubilee General Insurance Company Limited ('JGI' or 'the Company') is a listed public limited company, engaged in provision of general (non-life) insurance business, including window takaful operations. The Company operates as the third-largest general insurance company in the industry, having a market share of 11.1% as of 2019; this includes JGI's market share of 11.2% in the conventional insurance market and 10.0% in the takaful insurance market.

Insurance Sector Update

Table 1: Insurance Industry Financial Indicators (Source: IAP)

(Rs. in Billions)	2018	2019
Insurance Premium (Gross)	77.0	83.7
Takaful Contributions (Gross)	8.6	11.0
Industry Total (Gross)	85.7	94.6
Combined Ratio	86.3%	89.1%
- Net Claims Ratio	50.5%	51.7%
- Underwriting Expense Ratio	35.8%	37.4%
Net Operating Ratio	71.6%	72.5%
RoAA	4.3%	4.7%
RoAE	9.8%	10.5%
Operating Leverage	50.7%	49.6%

- The gross premiums/ takaful contributions underwritten by the industry grew by 10% in 2019. The non-life insurance penetration, at ~0.2%, continues to lag the regional counterparts.
- Amidst double digit inflation (CYTD Dec'19: 12.6%), the industry' underwriting expense ratio increased, while a slight uptick was also noted in net claims ratio.
- Nevertheless, the industry's investment income grew by almost a fifth, which supported the net operating ratio.
- The sector's operating leverage remains around ~50%, which is considered to be on the lower side.
- The impact of the outbreak of novel coronavirus on the insurance has been relatively measured so far. Nevertheless, given the overall pandemic-induced macroeconomic changes, the following pointers summarize the impact.
    - The premium from all lines of business is expected to be impacted for 2020.
        - The pandemic-related project delays are expected to impact premiums under fire & engineering segment, albeit this largely depends on the actual project delays.
        - The reduced international trade will affect premiums in the marine line of business.
        - As a result of the coronavirus public lock down in Q2'2020, the automobile sales have been notably impacted. These have started picking up in Q3'2020, albeit the reduced automobile sales will have an impact on motor premiums, as new car insurance policies would drop.
        - In view of the above factors, we expect full-year premium for 2020 to be affected. The impact will largely depend on how long the pandemic stretches.
    - Despite lower premiums, the profitability of the insurance industry is likely to improve
        - The reduced economic activity, due to Covid-19, is likely to have a positive impact on claims ratio. The recent rains would adversely impact motor claims ratios generally in Property and Motor portfolio.
        - However, the expenses base likely to remain sticky, which should resultantly increase underwriting expense ratio.
        - Given the sizable reduction in interest rates, the investment income, specifically for companies holding fixed rate PIBs, are expected to increase on account of capital gains on PIBs. This should have a positive impact on the net operating ratio.
    - Overall capitalization & liquidity buffers in place are considered to be adequate. Industry capitalization & liquidity are expected to persist.
    - Going forward, there are plans to implement IFRS 17 across the industry, which will require additional provisioning. However, the industry-de IFRS 17 implementation is scheduled for January 1' 2022 and so far we have not received an estimation of the

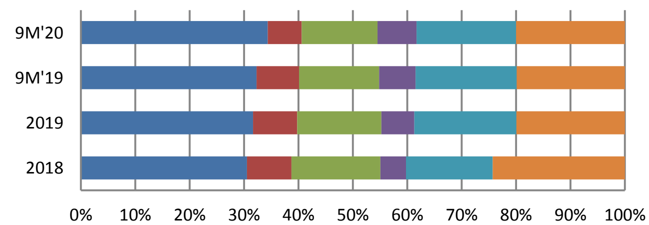
related provisioning charge.

Sponsor Profile

The assigned ratings draw strength from the sponsor profile, as major shareholding is vested with Aga Khan Fund for Economic Development (AKFED), which is an international development agency operating 90 separate project companies across 90 separate project companies, employing over 65,000 people. In 2019, AKFED had consolidated revenues of USD 4.5b.

Business Update[1]

Figure 1: JGI Business Mix



	2018	2019	9M'19	9M'20
Fire and property damage	30.5%	31.7%	32.3%	34.4%
Marine, aviation and transport	8.2%	8.1%	7.8%	6.2%
Motor	16.3%	15.5%	14.7%	13.9%
Liability	4.7%	6.1%	6.7%	7.2%
Accident & Health	16.0%	18.8%	18.6%	18.3%
Miscellaneous	24.3%	19.9%	19.9%	20.0%

- In 2019, JGI's gross underwriting grew by 4.1% trailing the industry growth of 8.6%. Similarly, growth in takaful contributions also lagged industry growth.
- Cumulatively, slower growth in conventional and takaful segments resulted in JGI's consolidated market share falling from 11.8% to 11.1%. JGI's market share in the conventional segment fell from 11.9% to 11.2%, while its market share in the takaful segment fell from 10.5% to 10%. As per management, the fall in market share is a result of lesser large-sized government projects and medium-sized insurance companies gaining market share through less profitable underwriting.
- Underwriting quantum remained stagnant in the ongoing year (9M'20 Rs. 8.7b; 9M19: Rs. 8.8b).
- Business mix remains broadly similar on a timeline, apart from a slight uptick in 'Accident & Health' (A&H) segment, as also reflected in the figure above. Growth in A&H is viewed negatively from a underwriting quality perspective, in view of the high loss ratios in the segment, and lack of reinsurance cover.

	2018	2019	9M'20	3-Yr Avg *
Gross Claims Ratio	**58.1%**	**40.6%**	**63.2%**	**48.2%**
- **Fire and property damage**	43.9%	23.1%	88.6%	38.9%
- **Marine, aviation and transport**	32.7%	23.8%	48.1%	28.0%
- **Motor**	42.6%	47.0%	47.0%	45.0%
- **Liability**	82.6%	41.1%	30.1%	38.5%
- **Accident & Health**	86.0%	97.8%	81.4%	88.0%
- **Miscellaneous**	70.7%	17.8%	33.9%	41.1%
***2017-19**				

Table 2: Segment-wise Gross Claims Ratio

- Underwriting

[1] Market Share figures presented herein, only include members of the Insurance Association of Pakistan.

performance depicted improvement in 2019, on the back of notable improvement in performance of the company's largest segment i.e. Fire.
- However, the Fire segment's performance worsened during 9M'20 translating in an increase in overall gross claims ratio, notably above the 3-year average.

Profitability

	2018	2019	9M'20
Net Operating Ratio	80.1%	82.5%	74.4%
Combined Ratio	99.0%	98.9%	108.8%
- Net Claims Ratio	57.1%	58.8%	67.0%
- Expense Ratio	41.9%	40.1%	41.9%

Table 3: Profitability Metrics (Figures in PKR' Millions, unless stated otherwise)

- Akin to the norms in the general insurance industry, major chunk of the company's profitability is derived from is investments; this specifically reflected by the combined ratio, which continues to hover around 100%.
- In absolute terms, JGI's net premium revenues increased by 8% to Rs. 5.8b (2018: Rs. 5.4b). Growth in net premium remained close to prior year, albeit was slightly lowered by the increase in cession.
- Both net claims and expense ratios remained comparable to past year, translating in a stagnant combined ratio. Even though, the adverse underwriting performance in 9M'20 did translate in the combined ratio rising above 100%, the improved investment performance helped in bringing down the overall net operating ratio well below the past 2-year average.
- JGI has an investment portfolio of Rs. 13.2b, comprising 50% of the total asset base as of Sep'20. The portfolio is mainly composed of sovereign debt securities (67%) and equity securities (32%) while exposure to term deposits is limited at 1% of the portfolio. Both credit and market risk arising from the portfolio is considered manageable.
- In view of the macroeconomic environment, the company moved its allocation out of equities, where exposure was reduced from Rs. 5.1b (Dec'18) to Rs. 4.2b as of Sep'20. In proportionate terms, equity holdings, as of Sep'20 constitute 32% of the investment portfolio, vis-à-vis 47% as of Dec'18.
- In addition to the investment in money market and equities, the Company's investments also include property and associate investments to the tune of Rs. 647m and Rs. 873m respectively.
- The yields on these portfolios are provided in table 4.

	2018	2019	9M'20
Investment Portfolio**	4.5%	11.6%	14.3%*
- Sovereign Debt Securities	8.1%	10.7%	16.2%
- Equities	1.0%	12.9%	21.6%*
- Term Deposits	3.9%	3.1%	2.8%*
Properties	13.4%	7.9%	10.9%*
Associates	4.5%	11.6%	14.3%*

****Annualized***

*****Takes into account unrealized losses incurred during the year and deducted from equity.***

Table 4: Yield on Investments

- **Investment Portfolio (Money Market & Equities):** As illustrated in the table above, the investment portfolio yield depicted an improvement on YoY basis, on the back of improved equity market performance. On the other hand, the company was able to realize capital gains on its long-term debt holdings, specifically in 9M'20, when the interest rates dropped by 625 bpts.

- **Properties:** These include buildings and land, wherein the market value is significantly higher than the book value as per valuations carried out by professional valuers. Yield on property varies on the basis of occupancy rate.

- **Associates:** The associated portfolio includes JGI's holdings in Jubilee Life Insurance Company Limited (JLI) and Jubilee Kyrgyzstan Insurance Company Limited (JKICL) having a book value of Rs. 729m and Rs. 144m respectively. The holding in JLI represents a sizable surplus, with market value of the holding standing at Rs. 2.5b (3.4x of book value) as of Sep'20. In case of the latter, market value can be considered as equivalent to book value.

- The improvement in investment performance, in combination with stagnant underwriting performance, translated in a 6% increase in JGI's pre-tax profits. Similar trend was noted in 9M'20, given the continuation of strong investment performance, allowing the company to grow its 9M'20 pre-tax profits by 60% vis-à-vis SPLY.

Reinsurance Coverage

- The reinsurance panel of JGI mainly comprises reinsurance companies rated highly by international credit rating agencies, in addition to the mandatory share of Pakistan Reinsurance Company Limited (PRCL) of 35%.
- PRCL has a rating of 'AA' from VIS. All other reinsurers on the panel - excluding Russia Re (3%) and Milli Re (3%) that are rated 'BBB+' and 'B+' respectively - have a rating in the 'A' band or above.
- In Dec'2019, the management of the company deliberated to arrange a pandemic cover for the A&H segment. The treaty is pandemic-specific with very limited cession of premium (0.1%).
- JGI's retention is adequately low, with net retention of sum assured in each segment not exceeding 1% of the Company's equity base. Actual cession has remained range bound over the period (9M'20: 37.5%; 2019: 40.4%; 2018: 37.3%).

Capitalization and Liquidity

Table 5: Capitalization

	2018	2019	9M'20
Equity (In PKR' Millions)	7,908	8,712	9,124
Payout Ratio	68%	59%	NA
Operating Leverage	30.6%	41.0%	35.6%
Financial Leverage	27.2%	26.0%	30.4%
Liquid Assets to Net Technical Reserves	196.4%	214.8%	219.5%
	13.9%	24.5%	23.9%

- JGI's capital buffers were impacted in 2017-18 on account of the adverse performance of the equity market. In the most recent period the improved equity market performance and JGI's favorable positioning in the money market, have reinforced JGI's capital buffers.
- The company's operating & financial leverage remain range bound and aligned with the peer median. JGI's liquid assets to net technical reserves have depicted improvement, and comfortably comply with the threshold.
- The dividend pay remained similar at Rs. 4 per share of 40% of par value. Albeit, given uptick in bottom line, payout ratio has receded.
- Amidst minimal growth in premiums and takaful contributions, and improved investment performance, JGI's capital buffers have improved, subsequent to falling in the preceding years.
- Aging profile of insurance debt has depicted improvement on a timeline. As of Jun'19, 21% of the insurance debt was overdue for more than 1 year; as of Jun'20, the same segment constituted 12% of the insurance debt.

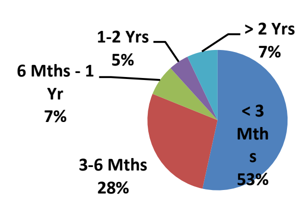


Figure 2: Aging of Insurance Debt (Jun'20)

Jubilee General Insurance Company Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET**	**DEC 31, 2018**	**DEC 31, 2019**	**SEP 30,2020**
Cash and Bank Deposits	1,669.0	1,149.0	1,221.9
Investments	10,758.7	12,372.2	13,227.4
Investment Properties	656.9	651.1	647.2
Insurance Debt	1,718.3	1,305.0	2,524.1
Total Assets	21,313.2	22,088.9	26,220.3
Paid Up Capital	1,804.5	1,804.5	1,984.9
Net Worth	7,908.1	8,712.1	9,124.5
Total Liabilities	13,237.9	13,376.9	17,095.9
INCOME STATEMENT*	**2018**	**2019**	**9M20**
Net Premium Revenue	5,397.4	5,829.8	4,102.5
Net Claims	3,082.4	3,426.7	2,747.7
Underwriting Profit (exc other expenses)	56.1	65.5	(362.2)
Net Investment Income	1,018.5	954.7	1411.8
Profit Before Tax	1,631.3	1,725.0	1,009.4
Profit After Tax	1,066.3	1,224.3	1,158.1
RATIO ANALYSIS	**DEC 31, 2018**	**DEC 31, 2019**	**SEP 30,2019**
Market Share (Gross Premium) (%)*	11.8%	11.1%	N/A
Cession Ratio (%)*	37.3%	40.4%	37.5%
Gross Claims Ratio (%)*	58.1%	40.6%	63.2%
Net Claims Ratio (%)*	57.1%	58.8%	67.0%
Underwriting Expense Ratio (%)*	41.9%	40.1%	41.9%
Combined Ratio (%)*	99.0%	98.9%	108.8%
Net Operating Ratio (%)*	80.1%	82.5%	74.4%
Insurance Debt to Gross Premium (%)*	18.8%	13.9%	24.5%
Operating Leverage (%) **	30.6%	41.0%	35.6%
Financial Leverage (%) **	27.2%	26.0%	30.4%
Adjusted Liquid Assets to Technical Reserves (%) **	196.4%	214.8%	219.5%
**Including window takaful operations*			
***Excluding window takaful operations*			

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Jubilee General Insurance Company Limited
Sector	Insurance
Type of Relationship	Solicited
Purpose of Rating	Insurer Financial Strength

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: INSURER FINANCIAL STRENGTH				
29/12/2020	AA+	-	Stable	Reaffirmed
12/31/2019	AA+	-	Stable	Reaffirmed
12/31/2018	AA+	-	Stable	Reaffirmed
1/23/2018	AA+	-	Stable	Reaffirmed
11/8/2016	AA+	-	Stable	Reaffirmed
12/31/2015	AA+	-	Stable	Reaffirmed
12/30/2014	AA+	-	Stable	Reaffirmed
12/12/2013	AA+	-	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Nawaid Jamal	CFO	November 30th 2020