

SECURITY GENERAL INSURANCE COMPANY LIMITED

Chairman: Mr. Mian Hassan Mansha; Chief Executive: Ms. Nabiba Shah Nawaz

April 22, 2015

Analysts: Amir Shafique
Zaigham Abbas Shah

Rating Rationale

Category	Latest	Previous
IFS	AA- Apr 22, '15	AA- Feb 04, '14
Outlook	Stable Apr 22, '15	Stable Feb 04, '14

The assigned rating to Security General Insurance Company Limited (SGI) takes into account its sponsors' support and robust capitalization in context of the risk retained on balance sheet. However the decision to discontinue procuring market based business and underwrite group business only may have a bearing on the future outlook. As per management, the decision has been taken in view of general market conditions. SGI is likely to close all branches outside Lahore. The scale down in operations would have a significant impact on size and market share of the company.

SGI procures a major chunk of business through associate companies, mainly in power projects which constitute more than one third of the overall business, with the company's role being that of a fronting agent. Growth in business volumes has remained limited due to a major non-renewal in power policy. Total business from related parties amounted to Rs. 637.4m (FY3: Rs. 530.4m) in FY14. Fire continues to be the lead contributor to business volumes while there was some growth in marine and motor segments.

SGI has a diversified panel of reinsurers having sound financial strength ratings with Scor Re and Hannover Re in the lead. The treaty terms provide adequate coverage against risks. In 2015, SGI inducted two new reinsurers including Swiss Re in the panel. The addition would further strengthen the reinsurer panel. Given the quantum of power business that is largely passed on to the reinsurer, overall cession has relatively been on the higher side in comparison to the industry.

Overall claims performance slightly weakened on account of a large claim incurred in marine segment; however, SGI's loss ratio still compares favorably to the industry. Profitability from underwriting operations has remained strong amounting to Rs. 92.1m (FY13: Rs. 96.8m) in FY14. Investment income largely in form of dividend continues to augment profitability of the company. Net profit amounted to Rs. 947.1m (FY13: Rs. 760.4m) during FY14.

Total investment portfolio (at market value) amounted to Rs. 18.4b (FY13: Rs. 15.1b) at end FY14. Investments mainly comprise strategic stake in shares of MCB Bank Limited (MBL) and AICL, both associate companies. Given the asset composition, the portfolio is subject to market risk. However, there is considerable unrealized gain on investments that provides adequate cushion against downside risk. Operating cash flows have remained robust at Rs. 693.1m (FY13: Rs. 826m) on the back of earning support from investments, Liquid assets (excluding strategic investment) in relation to total liabilities are also adequate. The higher quantum of insurance debt is largely a cyclical trend where premium from power business is collected on quarterly basis. While aging of premium due but unpaid is considered satisfactory; up to 17% of receivables from insurance companies are due for more than 3 year.

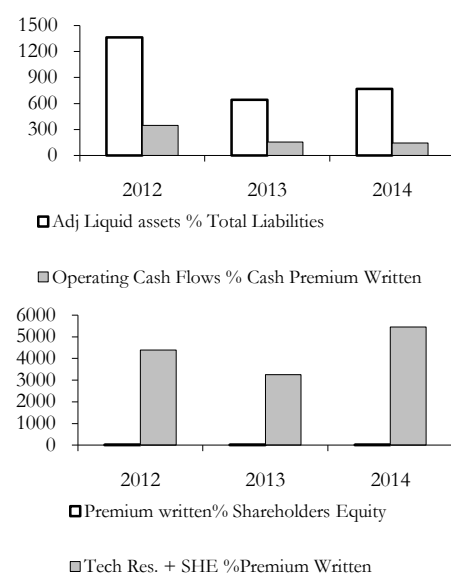
Total adjusted equity (including surplus on revaluation of investments) increased to Rs. 19.4b (FY13: Rs. 15.7b) at end-FY14. Over the years, SGI's capitalization has remained strong. Equity has also gained impetus from retained earnings. While equity is largely deployed in strategic investments, capitalization is nevertheless considered robust in context of the risk retained on balance sheet.

The management team is spearheaded by Ms. Nabiba Shah Nawaz, a Chartered Accountant, who has been associated with the company for almost a decade. Ms. Nabiba is supported by an experienced team with stability at senior management positions. The company is in the process of implementing a web based system; the process is in initial stages.

Overview of the Institution

SGI was incorporated as an unquoted public limited company in May 1996. Headquartered in Lahore, the company operates with a network of 10 branches (FY13: 10) providing insurance coverage against risks related to fire, marine, motor and other categories. Individuals and group companies of Nishat Group are the main sponsors while Allied Bank Limited also has a sizeable shareholding in the company. **JCR-VIS**

Key Financial Trends



(In Rs. M)	2012	2013	2014
Gross Premium	1,006.1	1,872.4	1,815.7
Net Premium Revenue	197.6	367.9	524.1
Net Claims ratio	35%	26%	43%
Combined ratio	115.4%	82.8%	75.1%
Profit before tax	457.2	585.3	617
Net Profit / (Loss)	526.8	760.4	947.1
Equity	10,431	15,723	19,414
Operating Leverage	1.9%	3.3%	2.5%
Financial Leverage	3.4%	8.4%	7.5%
Insurance debt % Gross Premium	35.2%	62.1%	68.1%

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