The Pakistan General Insurance Company

Chairman: Ch. Manzoor Ahmed; CEO: Ch. Zahoor Ahmed

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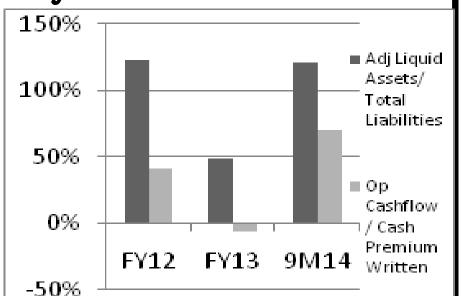
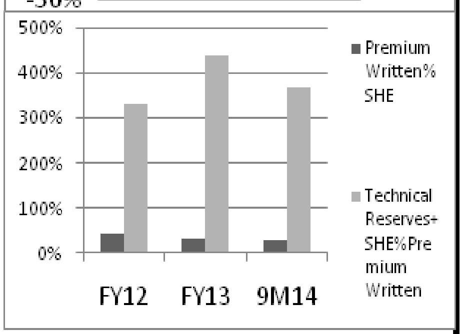
Analysts: Amir Shafique
Maham Qasim

Category	Latest	Previous
IFS	**A-** Dec 12, '14	**A-** Nov 22, '13
Outlook	***Positive*** Dec 12, '14	***Stable*** Nov 22, '13

Key Financial Trends





(In Rs. M)	FY12	FY13	9M14
Gross Premium	384	330.4	297.7
Net Premium	229	176.6	166.3
Net Claims ratio	33%	37%	41%
Combined ratio	56%	112%	73%
Net profit	109.5	27.3	41.3
Adj. Equity	528	540	586.7
Operating Leverage	43%	33%	29%
Financial Leverage	22.4%	31.3%	27.3%
Insurance debt % Gross Premium	45%	72%	37%

Rating Rationale

Pakistan General Insurance Company Limited (PGI) was able to exhibit growth in business volumes during the on-going year, following a declining trend in preceding years. Business volumes picked pace in FY14 that is expected to be closed around Rs. 395m. Earlier, the company was delisted from a major bank; however, the management was able to pull back the share by getting listed on the bank's panel. The company's capitalization is adequate and largely compares favorably to peers in the industry.

PGI has four reinsurers with Pakistan Reinsurance Company Limited (PRCL) in the lead. The quality of reinsurers on the panel is adequate. Earlier in FY13, the company had 85% cover under quota cum surplus treaty while the remaining 15% was retained on net account. In FY14, quota share cum surplus cover is being provided by PRCL only that has a share of 55%. The remaining business is reinsured under XoL treaty with other reinsurers. There was no change in treaty capacity or retention with PRCL; however, XoL cover may enhance retention of claims on net account. Given the change in treaties, cession declined 44.1% to (FY13: 46.8%) in 9M14.

The investment portfolio increased to Rs. 315m (FY13: Rs. 133.4m; FY12: Rs. 176.3m) on account of TDRs at end-9M14. The portfolio largely comprises TDRs placed with a highly rated commercial bank while the remaining portion is invested in Defense Saving Certificates (DSCs) and listed equities. Given the asset composition, credit risk emanating from the portfolio is minimal. Listed equities carry a revaluation surplus (adjusted for impairment) of Rs. 3.3m (FY12: Rs. 18m) in FY13; there is enough room in capitalization to absorb market losses arising from exposure to equities.

Liquid reserves increased to Rs. 349.6 m (FY13: Rs. 132.4m; FY12: Rs. 273.3m) by end-9M14. The increase was manifested in TDRs and bank placements. As a result, liquid assets as a proportion of total liabilities stood at a comfortable level of 123.7% (FY13: 49%). Moreover, cash flows from operations increased to Rs. 152m (FY13: negative Rs. 6.3m FY12: 93.4m) largely on account of recovery in insurance debt. There was considerable decline in insurance debt vis-a-vis gross premium during 9M14.

The company posted an underwriting loss of Rs. 21.2m in FY13 as compared to an underwriting profit of Rs. 99.8m in the preceding year. Losses emanated due to multiple reasons. While net claims ratio remained well below industry average, profitability was diluted on account of provisioning against receivables and creation of Premium Deficiency Reserve (PDR). The PDR is a temporary reserve and is likely to reverse in future. Moreover, there was notable decline in commission income from reinsurers due to downward revision in commission rates and treaty change. Adjusting for PDR and provisioning, the company's combined ratio was well below 100% in FY13. Investment income support from DSCs, TDRs and rental properties has remained steady over the years. Capital gain from listed equities has seen varied trends; though the company booked gain on securities amounting to Rs. 21.2m in FY13.

Subsequent to the demise of a director, there was one change in the board. A new director representing minority shareholders was appointed in FY14. There are four independent directors in the board. The company has implemented an integrated ERP developed on visual basic while there is also an in-house internal audit department.

Overview of the Institution

PGI is engaged in providing general insurance services since its inception in 1947. The company is listed on all three stock exchanges of Pakistan and operates through a network of 35 branches. The company has a registered office in Lahore. Financial statements for FY13 were audited /s Rehman Sarfraz Rahim Iqbal Rafiq and M/s Kamran & Co. Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
25-Nov-13	A-	Stable		Upgrade
31-Dec-12	BBB+	Stable		Reaffirmed
02-Jan-12	BBB+	Stable		Upgrade
23-Nov-10	BBB	Positive		Reaffirmed
20-Oct-09	BBB	Positive		Reaffirmed