

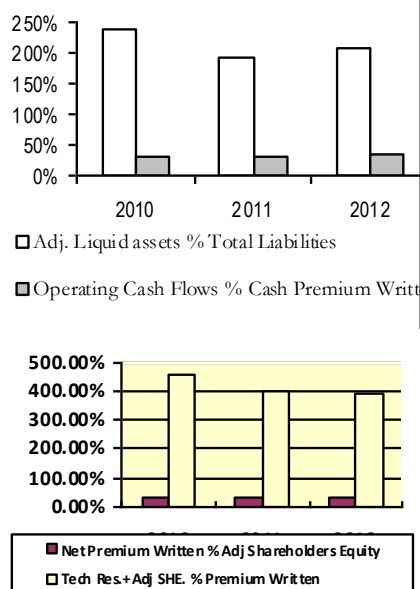
Alpha Insurance Company Limited

Chairman: Mr. Alimuddin Bullo; Managing Director & CEO: Mr. Umair Khan

October 4, 2013

Analysts: Sobia Maqbool, CFA Talha Iqbal		
Category	Latest	Previous
IFS	A Sept 30, 2013	A Nov 14, 2012
Outlook	Stable Sept 30, 2013	Negative Nov 14, 2012

Key Financial Trends



(In Rs. M)	2010	2011	2012
Gross Premium	140	155	204
Market Share *	0.4%	0.4%	0.5%
Net Premium	59	74	67
Net Claims ratio	79%	70%	56%
Combined ratio	178%	179%	199%
Net Profit / (Loss)	-1	18	35
Adjusted Equity	437	430	570
Operating Leverage	17%	15%	15%
Financial Leverage	46%	50%	41%
Insurance debt % Gross Premium	81%	78%	60%

*(based on private insurance industry sector)

Rating Rationale

The assigned ratings incorporate the improved risk adjusted capitalization of Alpha Insurance Company Limited (AICL) as evident in its growing equity base and declining underwriting leverage ratios. Rating also reflects the adequate liquidity profile and improved claims performance of the company. Ratings are constrained by the small size of AICL, a high expense structure resulting in underwriting losses and high levels of outstanding claims. Demonstrated financial support of the primary sponsor, State Life Insurance Corporation of Pakistan (SLIC) which is owned by the Government of Pakistan, provides strength to the assessment of overall risk profile of the institution.

Growth in business volumes has been witnessed in 2012 and in 1H13. Growth has been driven by credit and surety business (C&SB) which comprised around 22% (2012: 10%) of the business mix during 1H13. While the segment is considered to entail high business risk, so far only one claim has been intimated to the company, with net claim in lieu of the same estimated at Rs. 2m. Given the low premium rates and weak underwriting performance for the C&SB and motor segment, respectively, management has decided to curtail business for the same while enhancing focus on increasing the proportion of business in the marine segment. AICL has projected gross premiums of Rs. 250m for 2013 and 25% growth in subsequent years upto 2015.

While no change has been witnessed in treaty terms, Pakistan Reinsurance Company Limited is now the lead reinsurer with the exit of Mitsui Sumitomo Re from Pakistan. IFS rating profile of the reinsurance panel is in line with regulations. Almost 15% of the treaties have been placed with reinsurer rated 'B++'. Currently, motor and health business are retained on net account while reinsurance cover for terrorism related risks has been arranged from PRCL with net retention of Rs. 10m. In order to underwrite bigger risks, management plans to negotiate larger treaty capacities for fire and marine segments in 2014. Existing treaty capacities are on the lower side compared to peers and restrict the company's ability to do business.

Claims performance of the company has showcased improvement on a timeline basis in 2012 and 1H13 vis-à-vis 2010. However, underwriting losses have persisted on account of a very high expense ratio, partly due to provision against doubtful debts. This trend is expected to continue over the short to medium term depending on growth in premiums. Despite underwriting losses, AICL reported strong growth in net profits (Net Profit of Rs. 73.4m in 1H13), owing to favorable investment performance. Any negative trend in the stock market may exert downward pressure on the earnings profile of the company as almost 65% (2012: 39%; 2011: 31%) of investment income in 1H13 has been in the form of capital gains.

Despite sizeable insurance debt in relation to gross premium of 43% at end-1H13, liquidity profile of the institution is considered adequate on account of equity injection of Rs. 100m in 2012, highly liquid investment portfolio and a buoyant stock market. However, outstanding claims continue to be on the higher side with over three-fourth of the same having been outstanding for over a year. Besides outstanding claims, gross claims under litigation amounting to Rs. 95m have not been provided in the company's books as the company believes it is not liable to settle these claims. Liquid assets in relation to technical reserves (adjusted for prepaid reinsurance ceded and unaccounted for claims) stood at 2.4x (2011: 1.8x) at end-2012.

AICL maintains a highly liquid investment portfolio that mainly consists of government securities and listed equities. Exposure to low risk government securities represented 74% of the overall portfolio while investment in listed equities comprised 28% of total investments. Market risk arising from exposure in equities and fixed rate government paper is considered manageable in relation to company's loss absorption capacity.

Overview of the Institution

State Life Insurance Corporation of Pakistan (SLIC) is the parent company of Alpha Insurance Company Limited. Financial statements for the year 2012 were audited by M/s Fergusons and Co. JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: IFS</u>				
30-Sep-13	A	Stable		Maintained
14-Nov-12	A	Negative		Reaffirmed
30-Dec-11	A	Negative		Maintained
03-Dec-10	A	Stable		Reaffirmed