ACE INSURANCE LIMITED (ACE Pakistan)

Chairperson & Chief Executive Officer: Ms. Zehra Naqvi

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Analysts: Talha Iqbal
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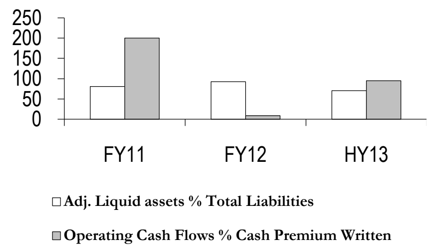
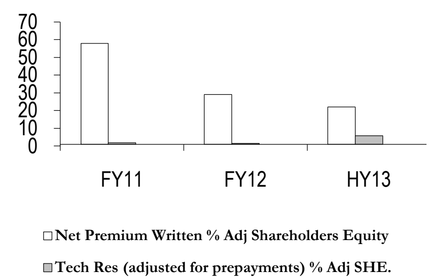
Category	Latest	Previous
IFS	AA- *Oct 21, 2013*	AA- *Sep 11, 2012*
Outlook	***Stable*** *Oct 21, 2013*	***Stable*** *Sep 11, 2012*

Key Financial Trends





(In Rs. M)	**FY11**	**FY12**	**HY13**
Gross Premium	565.4	602.6	187.6
Market Share	1.32%	1.34%	N/A
Net Claims ratio	37.9%	3.57%	47.2%
Combined ratio	66.5%	42.1%	84.3%
Net Profit	82.6	89.3	28.6
Equity	391	405	345
Operating Leverage	58%	29%	45%
Financial Leverage	172%	128%	217%
Insurance debt % Gross Premium	35%	33%	24%

Rating Rationale

JCR-VIS Credit Rating Company Limited has reaffirmed 'AA-' rating assigned to Ace Insurance Limited, which derives strength from its association with the ACE Group. ACE Pakistan is a wholly owned subsidiary of ACE INA International Holdings, Ltd. Delaware, USA., which is part of ACE Group. ACE Group is one of the world's largest multiline Property and Casualty insurers with operations in 53 countries. At end 2012, ACE Limited, reported $92.5b (FY11: $87.3b) of assets and $27.5b in net equity (FY11: $24.3b) while the Group posted net profit of $2.7b (FY11: $1.5b). ACE Group has an outstanding financial strength rating of 'AA-' and an issuer credit rating of 'A' from an international rating agency. ACE Tempest Reinsurance Company Limited is the prime reinsurer of the company which has a strong credit risk profile, with a financial strength rating of 'AA-' from Standard & Poor's.

The assigned rating incorporates ACE Pakistan's strong risk adjusted capitalization level as evident from low net risk retention, conservative investment profile, sound liquidity indicators and a stable & professional management team. Support from the parent entity is evident in terms of sizeable treaty capacities, largest in the domestic context, and limited retention on net account, providing ACE Pakistan significant advantage in terms of business generation while limiting risk on net account. Reinsurance treaties provide coverage for risks written outside Pakistan as well; enabling geographical risk diversification. Moreover, technical support from the Group provides strength to underwriting operations.

Business mix continues to be led by the Fire & Property damage segment, which also includes energy, engineering and terrorism related risks. Growth in premium in 2012 was slightly below projections. . In line with the company's strategy to increase the proportion of direct business, premium from direct business grew to Rs. 238m in FY12 (FY11: Rs. 77m). ACE Insurance Limited - Pakistan is also insuring significant & large accounts in Afghanistan and Bangladesh, reflected by 8% of business generated from risks situated outside Pakistan. Despite growth in gross premium, net premium revenue halved in FY12 on account of higher cession due to increase in treaty cost on XoL treaties and growth in energy sector business which is governed by quota share treaties. Resultantly, commission income from reinsurers was higher and claims performance showed significant improvement in FY12. Profitability of the company showcased improvement in FY12 on the back of higher investment income stemming almost entirely from bank deposits.

In the backdrop of limited infrastructure activity and decline in foreign direct investment in the power sector, business generation was adversely affected in the first half of the on-going year. Moreover, some business has been shed, given that risk profile was not within acceptable parameters. The management expects business volumes to be higher in the second half of the year.

Net equity at end-1H13 stood lower at Rs. 345m on account of dividend payout of Rs. 171.8m over the last two years. Operating leverage ratio is low and is indicative of room for growth. While remaining within prudent limits, leverage indicators may trend upwards, assuming growth projections are realized, on account of high dividend payouts projected in future. Solvency of the company is adequate with net admissible assets well above the minimum requirement.

Insurance debt in relation to gross premiums has improved on a timeline basis and stood lower at 24% at end-1H13. Outstanding claims and reinsurance recoveries have witnessed a significant increase at end-1H13 on account of claims incurred in the power segment. Overall liquidity profile of the company is considered sound with liquid assets in relation to technical reserves (adjusted for prepaid reinsurance ceded) at 1.05x (FY12: 1.47x; FY11: 1.25x) at end-1H13.

Overview of the Institution

Incorporated on August 6, 2001, ACE Insurance Limited - Pakistan is engaged in underwriting general insurance business. Financial statements for 2012 were audited by M/s A.F. Fergusons & Co., a member firm of Price Waterhouse Coopers. The company has total staff strength of 17