UBL Insurers Limited

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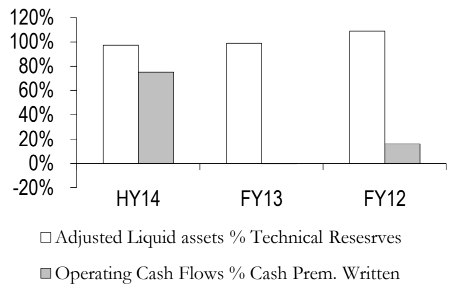
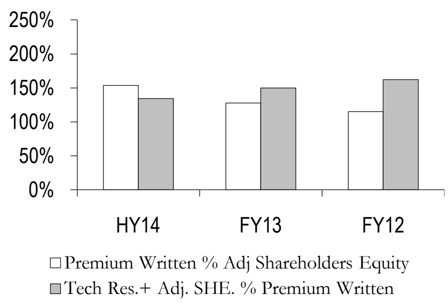
Category	Latest	Previous
IFS	**A+** *Nov 13,'14*	**A** *Dec10,'13*
Outlook	***Stable*** *Nov 13,'14*	***Positive*** *Dec10,'13*

Key Financial Trends





(In Rs. M)	HY14	FY13	FY12
Gross Premium	557.3	886.0	760.4
Market Share	-	1.67%	1.6%
Net Premium	187.3	341.6	278
Net Claims ratio	49%	61%	69%
Combined ratio	94%	105%	113%
Net Profit / (Loss)	31.2	36.5	28.8
Operating Leverage	52%	49%	42%
Financial Leverage	107%	91%	87%

Chairman: Mr. Aameer Karachiwala; Chief Executive Officer: Mr. Babar Mahmood Mirza

Rating Rationale

The assigned rating reflects UBL Insurers Limited's (UIL) adequate capitalization, recent improvement in underwriting performance and conservative investment profile. The rating also draws strength from the strong profile and demonstrated financial support of its sponsors. Ability to demonstrate a consistent and improving track record in underwriting performance and a strengthening trend in capital on both an absolute and risk-adjusted basis will continue to be tracked by JCR-VIS.

Business volumes have depicted steady growth over the last two years with growth momentum continuing in the ongoing year. Most of this growth has been achieved through market based business while business generated from related parties has declined in proportional terms and represented around one-third of the overall gross premium. Management has taken measures to improve underwriting performance through increasing premium rates and reducing retention in the BBB segment, where claims ratio has historically remained high, while claims performance in the motor segment has also improved on the back of strict underwriting controls. Resultantly, net claims ratio was recorded at 49% during 1H14 (1H13: 65%). Expense ratio has been maintained around prior year level and benefits from minimal acquisition cost on business generated from related party. The company posted an underwriting profit of Rs. 10.8m in 1H14 (2013: Underwriting loss of Rs. 16.8m; 2012: underwriting loss of Rs. 34.9m). Profitability of the company is supported by investment income stemming almost entirely from stable sources.

UIL has 5 reinsurers on its panel with Hannover Re (2013: Scor Re.) being the lead reinsurer. Financial profile of reinsurers on the panel is considered sound with all reinsurers having a rating of at-least 'A-'. Excluding motor business, cession has historically remained on the higher side at around 80% over the last three years. Resultantly, growth in net premium revenues has remained limited. This strategy was being pursued in the backdrop of high level of accumulated losses carried by the company. With significant reduction in accumulated losses, management plans to gradually increase its retention across key business lines, excluding BBB. In this regard, retention in fire, marine, engineering & general accident segments has been increased in the main treaty. To an extent, net account is protected by a non-marine XoL treaty, though in case of higher frequency of small sized losses of up to Rs. 20m, the impact will have to be borne by UIL itself. Among the various risks underwritten by the company, maximum claim that can fall on net account is in case of terrorism business, representing 3% of the company's own equity.

Investment portfolio of UIL entirely comprises exposure to fixed income instruments. Credit risk emanating from the investment portfolio is limited in view of exposure to government securities and highly rated TFCs. Given the increased exposure towards PIBs, market risk on books has increased on a timeline basis. Insurance debt in relation to gross premium has witnessed a rising trend and stood at 33% (2012: 31%) at end HY14. The rising trend in un-paid premiums may need to be arrested. Cash flow from operations has depicted volatility with the company recording cash outflow of Rs. 1.6m (2012: Cash inflow of Rs. 44m) during 2013. UIL recorded cash inflow of Rs. 120.3m during 1H14. Overall liquidity profile of the company is considered adequate in view of sizeable liquid assets in relation to technical reserves.

Capitalization and solvency position of the company is considered adequate with net admissible assets well in excess of the regulatory requirement. Leverage indicators have remained low given the company's low retention policy in major business segments so far. Operating leverage may increase as the company continues to grow while increasing retention, as planned, unless the rate of internal capital generation is higher.

Overview of the Institution

UBL Insurers Limited is an unlisted public limited company which commenced operations in January 2007. UIL is a subsidiary of Bestway (Holding) Limited that holds 55.6% stake in the company. Holding of UBL has been maintained at 30% while that of Abu Dhabi Group holds 12.2% shares. M/s KPMG Taseer Hadi & Co. Chartered Accountants has been appointed as external auditors for 2014 JCR-VIS

Rating History

Rating Date	Medium to Long Term	Outlook	Rating Action
Rating Type: Insurer Financial Strength			
11/13/2014	A+	Stable	Upgrade
12/10/2013	A	Positive	Maintained
10/19/2012	A	Stable	Reaffirmed
9/19/2011	A	Stable	Reaffirmed
11/16/2010	A	Stable	Upgrade