

RATING REPORT

UBL Insurers Limited

REPORT DATE:

June 22, 2017

RATING ANALYSTS:

Muniba Khan

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RATING DETAILS

| Rating Category | Latest Rating | Previous Rating |
|-----------------------|--------------------|--------------------|
| | Long-term | Long-term |
| IFS | AA- | A+ |
| <i>Rating Date</i> | <i>May 29, '17</i> | <i>Dec 30, '16</i> |
| Rating Outlook | Stable | Stable |
| <i>Outlook Date</i> | <i>May 29, '17</i> | <i>Dec 30, '16</i> |

COMPANY INFORMATION

| | |
|---|---|
| Incorporated in 2006 | External auditors: M/s KPMG Taseer Hadi & Co. Chartered Accountants |
| Public Company | Chairman of the Board: Mr. Aameer Karachiwala |
| Key Shareholders (with stake 10% or more): | Chief Executive Officer: Mr. Babar Mahmood Mirza |
| Bestway (Holding) Limited – 55.6% | |
| United Bank Limited – 30.0% | |
| Abu Dhabi Group – 12.2% | |
| | |

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology –General Insurance (Sep 2016)

<http://www.jcrvis.com.pk/docs/Meth-GenInsurance201609.pdf>

UBL Insurers Limited (UIL)

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 United Bank Limited (UBL) has been maintained at 30% while Abu Dhabi Group holds 12.2% shares.

Profile of Chairman

Mr. Aamer Karachinala is a seasoned banking professional who has been associated with UBL since 2011. He currently serves as Chief Financial Officer at UBL.

Profile of CEO

Mr. Babar Mirza is a senior insurance professional with over 14 years of experience. Prior to joining UIL, he worked with Adamjee Insurance Company Limited and Habib Insurance Company Limited. He holds a Master's Degree in Business Administration.

Financial Snapshot

Net Equity: March 2017 – Rs. 1.0b, Dec 2016 – Rs. 987.3m

Net Profit: May 2017 – Rs. 39.5m, Dec 2016 – Rs. 136.6m

RATING RATIONALE

UBL Insurers Limited (UIL) was incorporated as an unlisted public company in June 2006. The company is primarily engaged in provision of general insurance services in Pakistan. In December 2015, UIL was granted approval to launch Window Takaful Operations. The assigned rating of UIL takes into consideration continued performance of the company reflected by prudent reinsurance treaties and improved underwriting results.

Company, Sponsor Profile & Governance: The assigned rating is underpinned by the sponsors' profile, with major shareholding vested with Bestway (Holding) Limited, a multinational conglomerate operating in United Kingdom and Pakistan – and United Bank Limited (UBL), one of the largest banks in the country. The rating also draws strength from demonstrated financial support of its sponsors in the past.

Business Volumes: In 2016, UIL's premium base showcased a growth rate of 45.8% with gross premium amounting to Rs. 2.3b (2015: Rs. 1.6b). Business mix remained tilted towards fire and property along with health and motor premiums. Going forward, management is targeting to increase business volumes on the back of new infrastructure projects coming in. Gross premium amounted to Rs. 864.9m in March 2017. The company also improved performance in its Window Takaful Operations with contributions increasing to Rs. 45.2m (2016: Rs. 114.9m) in March 2017.

Underwriting Performance & Profitability: Claims and expense ratios of UIL compares favorably to peer insurance companies. Improvement in core underwriting performance reflected positively on the bottom line of the company. JCR-VIS has been given to understand that UIL's diversified book of business and future plans will allow it to continue to maintain a risk profile consistent with its rating.

Liquidity: While liquidity profile of the company is considered adequate; trend in growing insurance debt in respect to total gross premium is expected to be reduced over time. In order to arrest the increasing trend in receivables, a collection team has been formed and a recovery strategy is in process of being drafted by management. Aging profile of insurance debt is also considered satisfactory. Going forward, strengthening of liquidity management is considered crucial.

Investments: Improved core underwriting performance reflected positively on the bottom line of the company while income from investment portfolio continues to support the bottom line. The company's investment portfolio comprises more than half of exposure in government papers while the remaining is deployed in income funds, debt instruments and listed equities at end-December 2016. Since inception, UIL had a conservative stance towards investments. The ability of investments to generate a steady stream of income and contribute to the bottom line would support the assigned rating.

Capitalization: Going forward, continuation of prudent underwriting policies would be amongst the key rating drivers; ability to demonstrate a consistent and improving track record in underwriting performance and a strengthening trend in capital on both absolute and risk-adjusted basis will continue to be tracked by JCR-VIS.

JCR-VIS Credit Rating Company Limited

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

UBL Insurers Limited

Appendix I

| FINANCIAL SUMMARY | | | |
|--|----------------------------------|---------------------|---------------------|
| | <i>(amounts in PKR millions)</i> | | |
| BALANCE SHEET | DEC 31, 2016 | DEC 31, 2015 | DEC 31, 2014 |
| Cash and Bank Deposits | 30.5 | 77.8 | 183.3 |
| Investments | 777.5 | 847.4 | 680.7 |
| Insurance Debt | 954.9 | 596.7 | 449.2 |
| Total Assets | 3,531.8 | 2,652.6 | 2,082.8 |
| Net Worth | 987.3 | 851.9 | 753.1 |
| Total Liabilities | 2,518.5 | 1,800.7 | 1,329.7 |
| | | | |
| INCOME STATEMENT | DEC 31, 2016 | DEC 31, 2015 | DEC 31, 2014 |
| Net Premium Revenue | 872.9 | 534.6 | 385.2 |
| Net Claims | 452.9 | 203.8 | 176.7 |
| Underwriting Profit | 126.8 | 51.5 | 23.5 |
| Net Investment Income | 74.0 | 88.2 | 74.6 |
| Profit Before Tax | 196.3 | 147.1 | 101.8 |
| Profit After Tax | 136.6 | 99.5 | 59.8 |
| | | | |
| RATIO ANALYSIS | DEC 31, 2016 | DEC 31, 2015 | DEC 31, 2014 |
| Market Share (Gross Premium) (%) | 2.5% | 2.6% | 2.0% |
| Cession Ratio (%) | 59.8% | 60.1% | 63.8% |
| Gross Claims Ratio (%) | 82.4% | 45.5% | 51.5% |
| Net Claims Ratio (%) | 51.9% | 38.1% | 45.9% |
| Underwriting Expense Ratio (%) | 33.6% | 52.2% | 48.0% |
| Combined Ratio (%) | 85.5% | 90.4% | 93.9% |
| Net Operating Ratio (%) | 78.3% | 79.8% | 80.3% |
| Insurance Debt to Gross Premium (%) | 40.9% | 37.3% | 40.3% |
| Operating Leverage (%) | 87.8% | 61.5% | 49.7% |
| Financial Leverage (%) | 165.3% | 130.9% | 106.0% |
| Adjusted Liquid Assets to Technical Reserves (%) | 49.3% | 82.9% | 87.0% |

JCR-VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

AAA

Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

AA+, AA, AA-

Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

A+, A, A-

High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

BBB+, BBB, BBB-

Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

BB+, BB, BB-

Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

B+, B, B-

Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

CCC

Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

CC

Weak capacity to meet policyholder and contract obligations; Risk may be high.

C

Very weak capacity to meet policyholder and contract obligations; Risk may be very high

D

Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

JCR-VIS Credit Rating Company Limited

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| REGULATORY DISCLOSURES | | | | Appendix III | |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | UBL Insurers Limited | | | | |
| Sector | Insurance | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Insurer Financial Strength | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | RATING TYPE: INSURER FINANCIAL STRENGTH | | | | |
| | 5/29/2017 | AA- | | Stable | Upgrade |
| | 12/30/2016 | A+ | | Stable | Reaffirmed |
| | 12/23/2015 | A+ | | Stable | Reaffirmed |
| | 11/13/2014 | A+ | | Stable | Upgrade |
| Instrument Structure | N/A | | | | |
| Statement by the Rating Team | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. | | | | |
| Probability of Default | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. | | | | |
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