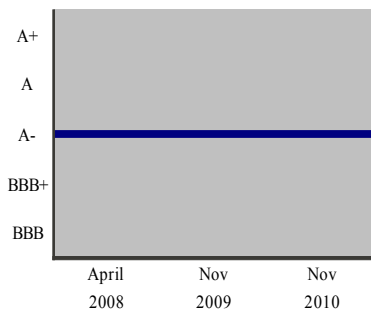


RATING (DECEMBER 2010)
ALFALAH INSURANCE COMPANY LIMITED (AFIC)

	NEW	PREVIOUS
INSURER FINANCIAL STRENGTH	A-	A-
OUTLOOK	Positive	-

IFS RATING HISTORY

FINANCIAL DATA

PKR (mln)

	*9M10	2009	2008
Total Assets	1,291.3	1,005.0	931.6
Total Equity	301.6	292.8	262.1
Underwriting Results	44.2	74.2	64.9
Net Income	33.0	48.1	24.5
Loss Ratio (%)	72.8	69.7	72.8
ROE (%)	^ 11.1	11.1	2.9
Net Claims/Financial Base (%)	^ 42.5	42.6	42.4

* unaudited, ^ annualized

ANALYSTS

Amara Gondal
+92 42 3586 9504
amara.gondal@pacra.com

Jhangeer Hanif
+92 42 3586 9504
jhangeer@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The rating reflects sustained improvement in AFIC's underwriting performance despite continuing volatility in the socio-economic environment of the country. AFIC's association with Abu Dhabi group provides support to the company mainly in the form of captive business, adding stability to its revenue stream. The company, while pursuing high growth, intends to maintain conservative risk appetite that entails significant reliance on reinsurers. However, AFIC's solvency position is expected to remain under pressure in tandem with its business expansion.
- The rating is dependent on successful execution of the management's plan to strengthen AFIC's positioning in a competitive insurance industry while drawing support from captive business. Meanwhile, consistency in overall profitability with sustainable contribution from core operations, thereby translating into augmented risk absorption capacity would have positive implications for the rating.

ASSESSMENT

- AFIC underwrites almost all major categories of general insurance business including fire, marine, motor, engineering, health, accident, and miscellaneous risks. The fire and miscellaneous segments continued dominating AFIC's GPW mix until 2008, and then the company fast built the health segment. AFIC has high reliance on group business, and, hence, keeps high top ten client concentration.
- During 2009, AFIC maintained its underwriting performance and with expanded business its absolute profits went upward. GPW grew to PKR 658mln in 2009 at a decent growth rate of 15%, mainly due to expansion in fire and health business. The company, while maintaining the overall retention ratio almost at the same level YoY, slightly improved the loss ratio. The underwriting expenses increased in tandem with the business expansion, resulting in underwriting margins at 22% of net premium revenue (2008: 25%). During 9M10, the underwriting performance continued with the same trend, while slightly expanding in non-captive business. Recently, in the wake of disaster caused by floods in Pakistan, AFIC has also been affected, mainly in fire segment with loss ratio climbing to 3 times in the 3rd Quarter of 2010. Nevertheless, marine and health losses significantly declined, thereby mitigating the hiked losses in fire. Moreover, net commission earnings, which remains the function of quality underwriting coupled with high cession levels, translated into underwriting margins at 16% of net premium revenue for 9M10. Meanwhile, AFIC restrained its exposure to the capital market in 9M10, thereby registering net investment income from income based avenues. This helped the company to post improved operating ratio at end-Sep10.

- Going forward, AFIC has sustained growth stance, with increasing focus on non-captive business to fuel GPW expansion. For this, the company intends to enhance its outreach by opening new branches and hiring new team members. The targeted segments remain marine, motor and health. The company has recently signed an MoU with InterGlobal – an international private medical insurer – for providing medical treatment cover to individuals, families, and corporates or affinity groups. This arrangement is expected to bring commission income to AFIC while offloading the claim risk to InterGlobal except for currency risk retained by Alfalah Insurance. AFIC plans to leverage all group resources for business growth and better risk management. The crop insurance is on cards through arrangement with Bank Alfalah.

- AFIC has re-insurance treaties with diversified international reinsurers rated predominantly in 'AA' and 'A' categories. The management substantially improved its treaty capacity per risk for 2009, especially in fire. The company intends to continue with its currently high cession pattern for the time being. Despite high group business, the management does not forsake a prudent approach towards risk evaluation and competitive pricing.

- AFIC has a sizeable investment portfolio, constituting 33% of its total asset base at end-Sep09 (end-Dec09: 37%). The company, after chastened by stock market's plunge in 2008 causing impairment losses, shifted towards conservative investment portfolio. At end-Dec09, the investment in equity instruments was substantially reduced to PKR 42mln (2008: 72mln). The investment yield recovered to 4.7% (2008: -0.7%). During 9M10, the board approved an investment policy – limiting the exposure to equity securities – that changed the portfolio to be dominated by income based mutual funds (68%), followed by bank deposits (14%) at end-Sep10. Thus further improving the investment yield to 10% during 9M10.

- AFIC's solvency dropped in 2008 owing to aggressive business expansion in that year, subsequently largely stabilized as the company posted healthy profitability, translating into relatively stronger equity base. However, the benefit to equity has been limited, attributed to cash dividend payout in 2010 despite AFIC's initial years of business expansion. Consequently, liquidity of the company has not experienced commensurate upturn.

PROFILE

- Alfalah Insurance Company Limited (AFIC), licensed to undertake the insurance business in Sep06, is engaged in providing general non-life insurance services. With its headquarter in Lahore, AFIC operates through a network of 8 branches in major cities of Pakistan. AFIC occupied ~2% market share, at end-Dec09, while securing 11th position in the industry (2008: 16th position), in terms of GPW. The Abu Dhabi Group (ADG), consisting of prominent members of the UAE's ruling family, leading businessmen of UAE and associates, owns AFIC through key sponsoring individuals and group companies including Bank Alfalah Limited (BAL) – sixth largest bank having assets at end-Sep10 of PKR 380bln.

- AFIC has a seven member board – chaired by Sheikh Hamdan Bin Mubarak Al Nahayan. The CEO, Mr. Nasar us Samad Qureshi, assisted by a team of professionals, possesses around three decades of related experience. As the board continues demonstrating interest in strategic oversight of the company, its governance framework would likewise grow.