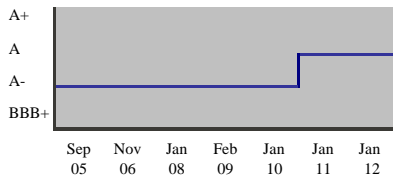


RATING (JANUARY 2012)

ASKARI GENERAL INSURANCE COMPANY LIMITED (AGICO)

| | New | Previous |
|-----------------------------------|-----|----------|
| Insurer Financial Strength | A | A |

RATING HISTORY



FINANCIAL DATA

PKR (mln)

| | Sep-11* | Dec-10 | Dec-09 |
|-----------------------|---------|--------|--------|
| Total Assets | 1,563 | 1,454 | 1,198 |
| Total Equity | 414 | 316 | 268 |
| GPW | 853 | 1,350 | 1,108 |
| Adjusted U/W Results | 7.2 | (8.6) | (11.7) |
| Net Income | 47.6 | 47.5 | (27.5) |
| Loss Ratio (%) | 55.0 | 60.3 | 64.9 |
| ROE (%) | ^ 17.4 | 16.3 | -9.8 |
| Operating Ratio (%) | 87.3 | 91.7 | 101.9 |
| Liquidity Ratio** (x) | ^ 1.8 | 1.4 | 0.9 |
| Solvency Ratio*** (x) | ^ 1.9 | 1.5 | 1.0 |

*Unaudited

** Liquidity Ratio: Adjusted liquid assets/Net Claims Expense

***Solvency Ratio: Financial Base/ Net Claims

^Annualized

ANALYSTS

Saira Rizwan
+92 42 3586 9504
saira.rizwan@pacra.com

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

RATING RATIONALE AND KEY DRIVERS

■ The rating reflects AGICO's improved underwriting performance achieved through re-profiling of the company's business mix in favor of quality portfolio. The management, while eyeing growth, intends to be prudent in underwriting standards. The rating takes into account improving control environment enabled through recently implemented real time core software providing tools for holistic oversight and efficient decision making. The investment book of the company, while expanding in absolute size, has moved favorably towards low risk liquid avenues. This rationalizing of investment book brings stable income stream, supplementing underwriting operations. The association of the company with 'Askari' brand is also a rating consideration.

■ The rating is dependent on the company's success in upholding the improving trend in its underwriting profitability. At the same time, gradual improvement in AGICO's solvency position in line with its business growth remains critical. The company's insurance related receivables have swelled, recovery of which is crucial.

ASSESSMENT

■ Ever since the economic downturn in 2008, the insurance industry, like other sectors of the economy, has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments in traditional products, exploring new avenues and taking steps to improve its operating platform to offer an improved level of services.

■ AGICO's GPW portfolio at end-Sep11 is dominated by motor segment (42%), followed by health (21%), fire (16%), misc. (11%) and marine (10%). During 9MCY11, the GPW mix tilted towards motor, as substantial dip was witnessed in fire and miscellaneous segments due to exit of a major client (~PKR 400mln). Top ten client concentration, on a comparative basis, has moderated for the same reason. However, in miscellaneous segment the concentration is still high. In line with AGICO's efforts to foster synergies within the Askari group, the share of captive business increased to 9% at end-Sep11 (CY10: 5%).

■ AGICO witnessed substantial decline in GPW (26% YoY) during 9MCY11 mainly on account of losing one key client. Baring this, the company's business has grown by 15%. The loss ratio has improved to 55% (CY10: 60%), indicating selective and prudent underwriting in fire, health and engineering segments. Resultantly, AGICO was able to earn underwriting profits with combined ratio at 98% as compared to consecutive losses for past three years. Moreover, consistent support from the investment income augmented the bottomline, thereby improving the operating ratio to 87% (CY10: 92%).

■ Going forward, AGICO intends to achieve a distinction in quality of service provided to its customers while continuing practicing selective underwriting. The company envisages SMEs sector for tapping the potential in micro insurance with prime focus on crop, health, and motor insurance. The group business would be an area of attention for the management, though its materialization is subject to multiple factors.

■ AGICO has recently implemented real time web-based insurance system (IGIS). This has provided sophisticated management tools in the form of upgraded MIS, helping the company to bring operational efficiency and performance elevation.

■ AGICO's liquid investment book amounting to PKR 604mln constitutes 1.5 times of its equity base at end-Sep11. The investment book has regained its absolute size since 2008, majorly as a result of fresh capital injection. Prior to this, the company also channelized funds by monetizing vehicles due to change in HR policy. The portfolio is now mainly deployed in liquid avenues (92%). The investment book consists of mutual funds (69%) – mainly money market: followed by debt securities (16%), government securities (6%), bank deposits (5%), and equity scrips (4%).

■ AGICO has a panel of reputed international reinsurers (Scor Re, Trust Int'l, Best Re, Malaysian Re, ARIG) predominantly rated 'A'. Meanwhile, the company has in place special reinsurance arrangement with Pakistan Reinsurance Company Limited (PRCL) in health segment, which is one of its kind in the industry. Moreover, the treaty capacities in other segments have been enhanced, indicating management's strategy of increased reliance on reinsurers, going forward. Nevertheless, the company's cession level has gone down to 39% at end-Sep11 (CY10: 59%) – mainly a factor of enhanced proportion of motor segment where cession is negligible.

■ AGICO's risk absorption capacity has improved mainly due to injection of PKR 51mln as right issue during 1QCY11. The solvency ratio of the company has slightly improved on the back of increased equity, supplemented by higher profits.

PROFILE

■ Askari General Insurance Company Limited (AGICO), listed on all three bourses of the country, commenced commercial operations in 1995. The company operates via nationwide network of over 19 branches with head office in Rawalpindi. Army Welfare Trust (AWT) and Askari Bank Limited (AKBL) holds 32% and 27% ownership stake in the company, respectively. AWT, established in 1971, is engaged in banking, insurance, cement, sugar, textile, and travel services. However, AWT is considering to divest some of these assets.

■ AGICO's eight-member BoD, excluding the CEO, is led by Lt. Gen. (R) Imtiaz Hussain. The board includes retired army officials, senior executives of AKBL and two independent members. The CEO – Mr. Abdul Waheed, CPA (USA) – has assumed this position in July 2010. Previously he has experience of leading another financial institution. A team of professionals, some of whom have recently joined AGICO, assists the CEO.