



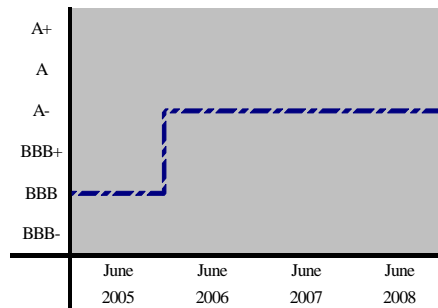
EAST WEST INSURANCE COMPANY LIMITED (EWI)

RATING (JUNE 2008)

EAST WEST INSURANCE COMPANY LIMITED

	NEW	PREVIOUS
Insurer Financial Strength (IFS)	A-	A-
Outlook	Positive	-

IFS RATING - HISTORY



FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Equity	644.1	332.8
GPW	502.2	404.2
Profit After Tax	326.3	60.4
Equity / NPW %	187.4	152.3
Liquid Assets/ Total Assets %	66.9	63.2

Analysts

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RATING RATIONALE AND KEY RATING DRIVERS

- EWI's rating reflects the company's strong risk absorption capacity emanating from a sound capital base, which has lately been supplemented by sizeable gains on selected equity investments. At the same time, the rating recognizes relative stability in the company's underwriting performance.
- The rating has been assigned a positive outlook recognizing significant increase in the company's equity base. However, the rating is dependent on development of a comprehensive investment strategy ensuring addition of a sustainable revenue stream, while keeping intact the robust risk absorption capacity. Moreover, the company's ability in improving its business volumes, while strengthening internal controls and information system would be critical. Meanwhile, the company's inability to capitalize on the recently improved equity base and/or material deterioration in underwriting performance would have negative implications.

ASSESSMENT

- EWI has a modest growth strategy whereby, unlike other non-captive insurance companies of similar size, which are relying heavily on the motor business for volume growth, it has a relatively balanced portfolio owing to the advantage of its extensive outreach. The overall business mix of the company is dominated by fire segment (around 50%), followed by a largely even distribution between marine (18%), motor (15%) and misc. (17%). In recent years the mix has changed in favour of the misc. segment owing to a shift in strategy whereby the company has increased its focus on the livestock and crops insurance segments, where the company has had relatively low loss experience in the past.
- During 2007, EWI maintained the healthy growth of 25% in GPW (2006: 25%). This was achieved on the back of improvement in all segments other than motor, where the company reduced its exposure. At the same time, net premium revenue depicted a significant growth of 35% due to a substantial decrease in cession levels (CY07: 32%, CY06: 46%). The loss ratio, witnessed a rise (CY07: 39%, CY06: 35%), mainly resulting from an increase in fire and marine related claims on account of unrest that gripped the country towards the end of 2007. This led to an increase in the combined ratio (CY07: 83%, CY06: 79%) undermining, to some extent the benefit of increasing volumes in the underwriting profitability.
- During 2007 and 1Q08, EWI's investment income increased significantly mainly due to sizeable capital gains on a few selected stocks. Currently, EWI's investment portfolio is pre-dominantly invested in stocks and has high concentration of a few scrips, exposing it to high degree of market risk. The management has yet to formulate an investment strategy and develop requisite risk management systems. Nevertheless, if managed properly, the company's investment portfolio, while providing liquidity, has the potential to supplement the company's core underwriting income.
- Going forward, the management intends to maintain its growth momentum. The company is targeting to penetrate further in loan-linked crop and live stock insurance. In this regard, it is pursuing a number of commercial banks. Although the management has a conservative stance towards risk, the intended expansion would require further strengthening of risk management framework, which includes developing of operating manuals and segregating duties. At the same time, the management information system, which is currently supported by fragmented IT resources, is expected to be replaced shortly by a relatively more comprehensive and centralized system, being developed in-house. This is expected to streamline the business by centralizing its reporting and through establishing online connectivity among major branches.
- EWI maintains adequate reinsurance arrangements with credible international reinsurance companies carrying high international ratings. The company has recently also obtained excess of loss cover for crop insurance.
- EWI has a strict credit policy that translates into a modest premium-due-but-unpaid to GPW ratio (CY07: 1.5%, CY06: 1.2%), a distinct factor compared to most peers. The company's overall financial base has also improved, well ahead of its peers. Going forward, despite the company's targeted expansion, this is expected to remain strong due to a conservative profit distribution policy.

PROFILE

- EWI commenced commercial operations as a general insurance company in 1983 and is listed on the Karachi Stock Exchange. Yunus family effectively holds the majority shareholding in the company. The other major concern owned by the family is Metropolitan Life Assurance Company of Pakistan Limited. Mian Mehboob Ahmad, having extensive exposure in the insurance sector, is the Chairman of BoD. The rest of the board is dominated by the sponsors, with five of the remaining six members including the CEO, belonging to the Yunus family. More recently with a view to improve corporate governance, EWI has inducted ex-managing director of Investment Corporation of Pakistan, Mr. A.K.M Sayeed and Mr. Tulu Javed Yunus, a CPA from USA as non-executive directors.
- The company writes various classes of general insurance business, and is the pioneer in the field of livestock insurance. The company has an extensive network of around 60 branches and agency offices spread across the country. With its head office in Karachi, the operations of the company are managed by three principal offices in Karachi, Lahore and Islamabad, each principal office being headed by a member of the Yunus family.