

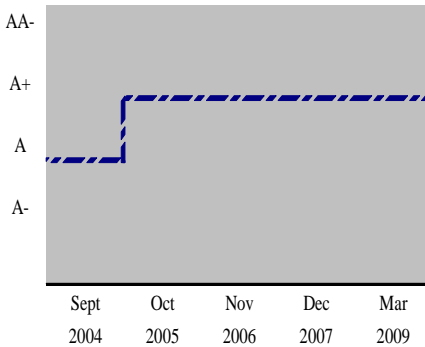


The Pakistan Credit Rating Agency Limited

RATINGS (MARCH 2009)

HABIB INSURANCE COMPANY LIMITED (HIC)

	New	Previous
Insurer Financial Strength	A+	A+



FINANCIAL DATA

PKR (mln)

	3Q08*	Dec-07	Dec-06
Total Assets	1,975	2,101	1,524
Equity	1,138	1,238	960
Underwriting Results	43	7	53
Pre-Tax Profit	84	408	606
Loss Ratio (%)	53.3	64.6	45.7
ROE (%)	8.8	37.3	91.1
Premium	290.2	325.3	311.2
Solvency (%)			

* Based on unaudited accounts for the period ended September 30, 2008.

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects HIC's strong risk absorption capacity emanating from a sound financial profile and healthy solvency margins. However, the investment portfolio of the company, which previously provided a cushion against unforeseen contingencies, has suffered diminishment in value due to the recent downturn in the stock market. Meanwhile, the company's association with the Habib Group, with group business providing a sizeable low-risk contribution, remains a key rating factor.
- The company's ability to successfully diversify its customer and product base, in turn, strengthening HIC's relative positioning in the industry, would have positive impact on the rating. Meanwhile, any significant increase in the loss pattern and/or continued downturn in the stock market, affecting HIC's investment income and risk absorption capacity, could have negative rating implications.

ASSESSMENT

- The insurance industry in Pakistan is facing major challenges arising from various broad socio-economic risks, which have hampered the growth prospects of the sector. Furthermore, the overall profitability of the sector – a function of underwriting business and investment income – remains under pressure due to the recent sub par performance of the stock market. Nevertheless, considering the current low insurance penetration level, the sector offers substantial growth potential in the long term. However, the short-term growth prospects of the industry remain subdued.
- HIC, over the years, has managed to largely maintain its overall market share, currently at around 2% of the total general insurance market. The company follows a steady growth model with a cautious expansion stance towards new segments.
- The premium mix of HIC has remained largely constant (9M08, 2007: Fire: 38%, 34%; Marine: 20%, 21%; Motor: 23%, 27%; Others: 20%, 18%). Although the captive business remains a valuable resource for the company (3Q08: 30%, 07: 31%, 06: 41%), its share in overall premium written has decreased recently. The management intends to increase its non-group exposure, with captive business contributing around 30%. However, intense competition in the sector, highlighted by aggressive growth stance of established industry players, could impact HIC's growth prospects, especially due to a relatively less diversified product base and limited outreach. The enhanced exposure to non-captive business is expected to diversify the premium mix of the company, but could also put pressure on the overall risk profile of HIC due to higher probability of loss and increased moral risk.
- During 2007 and 3Q08, HIC posted healthy GPW growth of around 23% and 14%, respectively. However, the company could not generate proportionate underwriting profitability due to higher incidence of claims from the fire and motor segments, largely related to the events of December 2007. The overall profitability of the company also came under pressure in 3Q08 due to a decline in investment income (9M08: PKR 78 mln; 9M07: PKR 199 mln) on the back of the recent plunge in the stock market.

- HIC maintains surplus, excess of loss and facultative re-insurance arrangements with credible re-insurers, having ratings in 'A' category and above. The company has followed a largely persistent cession pattern in the past, with retention levels being significantly above 50%. During 3Q08, it increased its cession and intends to maintain this level in the future. HIC is implementing Virtual Private Network for real time connectivity of its branches, which is expected to improve operational efficiency.
- The company's well-diversified investment portfolio (PKR 1,194 mln as of 2008) continues to dominate its total assets. Dominated by equity investments (comprising around 89% of the total portfolio), the investment portfolio has remained a major source of revenue and liquidity for the company. However, with the recent downward trend in the stock market, HIC has suffered a significant revaluation deficit on its portfolio (around PKR 424 mln as at end Dec. 2008), while the investment income is also expected to remain under pressure.
- The financial base of the company is robust. HIC's solvency and liquidity positions, though lower on YoY basis, remain strong in comparison with peers.

PROFILE

- Habib Insurance Company, in operation since 1942, is listed on the Karachi and Lahore Stock Exchanges. With a nationwide network of 15 branches, HIC underwrites risk in four segments: 1) Fire; 2) Marine; 3) Motor; and 4) Others. Habib Group – one of the oldest and most well known groups with significant investments in the industrial and service sectors – is the majority shareholder (65%) of HIC. The overall control of the company vests in the Board of Directors, comprising seven members, with six belonging to the Habib family.
- Mr. Ali Raza Habib, a financial industry veteran, is the CEO of the company since 1993. Mr. Shariq Abdullah, a chartered accountant and an MBA with significant experience, joined the company as COO in 2007. The operational control of the company vests in him.

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