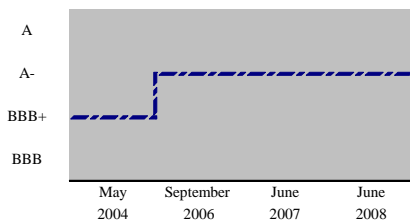


SHAHEEN INSURANCE COMPANY LIMITED (SIC)

RATING (June 2008)
SHAHEEN INSURANCE COMPANY LIMITED

	New	Previous
Insurer Financial Strength (IFS)	A-	A-
Outlook	Positive	-


ENTITY RATING HISTORY
FINANCIAL DATA
PKR (mln)

	31-Dec-07	31-Dec-06
Total Equity	279.5	219.3
GPW	746.4	671.3
Profit After Tax	60.2	51.0
Equity / NPW %	45.5	37.8
Liquid Assets/ Total Assets %	51.7	58.6

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RATING RATIONALE & KEY DRIVERS

- The rating reflects the company's association with a diverse set of strong sponsors. Moreover, the management, being cognizant of the importance of the information and risk management systems, has lately concentrated on strengthening its systems and controls. This is expected to improve the quality of underwriting and help in prudent business growth. At the same time, the rating factors in the healthy investment income that while contributing towards the overall profitability provides adequate liquidity.
- The rating has been assigned a positive outlook and is dependent on the management's ability to strengthen its relative standing in an increasingly competitive industry by achieving diversified business expansion, while managing the associated risks. Meanwhile, adherence to good governance standards and enforcement of strong control environment would remain critical. At the same time, any prolonged downturn in the stock market affecting the investment income of the company and / or inability to manage losses would have adverse impact on the rating.

ASSESSMENT

- SIC during CY07 continued with its strategy of balancing its business portfolio and achieved only a modest growth of 11% in GPW. In line with its strategy, the company was successful in achieving a controlled reduction in the respective share of the motor segment. Despite that, the motor segment continued to constitute the highest proportion of 63% of the total GPW followed by fire, miscellaneous and marine segments. Underwriting profitability registered significant decline mainly due to a higher combined ratio. This increase was attributable to change in business mix – higher growth in fire segment during the year - resulting in higher commission expense. However, the bottom line, despite increase in general expenses, registered a substantial increase on the back of a higher contribution of investment income. During 1Q08 SIC achieved a nominal growth in NPR. Underwriting results to premium earned, however, improved mainly due to a lower combined ratio on the back of a relatively lower loss ratio. The, investment income, continued its dominant contribution towards the bottom line.
- SIC, over the near-term intends to continue focusing on consolidation geared towards increasing the proportion of non-motor business in its business portfolio, while targeting a moderate growth of 10% in premium. The management plans to focus on increasing its client-base and improve its underwriting quality. The focus would be on increasing the contribution from mainly the fire segment towards the total mix. Despite an anticipated increase in expense ratio, the overall profitability is expected to show an improvement on the back of improved loss ratio. Moreover, the company intends to further expand its geographical outreach; continuing with opening liaison offices and converting them into fully functional branches depending on their performance and to keep the expected costs under control.
- SIC has outsourced the management of its investments in capital market – equities CFS – to First Capital Investment Limited (FCIL). FCIL manages this portfolio according to clearly laid down guidelines prescribing various stock, sector and overall limits. During 2007, the company's investment income more than doubled on account of a buoyant stock market. The investment portfolio, though provides liquidity, has exposed the company's bottom line to a higher degree of volatility mainly because of high exposure to stocks with limited proportion of relatively stable debt securities.
- SIC maintains adequate reinsurance arrangements. However, the overall cession levels of SIC are low, mainly due to substantial exposure in motor segment, where only excess of loss cover is availed. The company over the years has worked on the restructuring of its systems and procedures, including the successful implementation of well-integrated software. To effectively control the operations, the management has developed detailed underwriting and operational procedural manuals and built a strong technological infrastructure. At the same time, the management is making concerted efforts towards tightening its credit policies to bring down its relatively high overdue premiums.
- The company's solvency, though improved, remains low relative to peers. However, the capital structure is expected to register gradual improvement on the back of improved profits and planned full retention of the same, going forward.

PROFILE

- SIC commenced commercial operations as a general insurance company in 1995, and is currently listed on all three bourses of the country. With its head office in Karachi, the company has a nationwide network of over 31 branches and liaison offices. The company has three major shareholders, a). Hollard Insurance Company Limited, the third largest insurance company in South Africa underwriting all classes of short-term insurance business b). First Capital Security Corporation (FCSC), mainly holding company of First Capital Group, having interests in financial, insurance, media and real estate services and c). Shaheen Foundation, that is promoting welfare activities for the benefit of serving and retired Pakistan Air Force personnel, having diversified business interests.
- The overall control of the company vests in the seven-member BoD having representation of all major shareholders. The present CEO, who assumed this position in 2004, has spearheaded the turnaround at SIC and leads a cohesive, effective team of experienced individuals.