

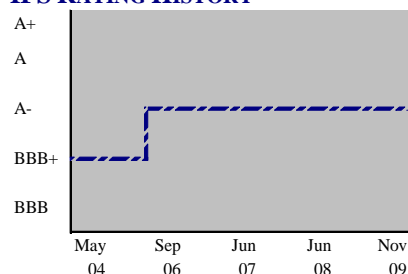


RATINGS (NOVEMBER 2009)

SHAHEEN INSURANCE COMPANY LIMITED (SIC)

	New	Previous
Insurer		
Financial Strength	A-	A-
Outlook	Positive	Positive

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)

	Sep-09*	Dec -08	Dec -07
Total Assets	888.4	755.2	871.7
Equity	256.5	207.8	279.5
GPW	530.7	701.2	746.4
Underwriting Income	57.8	66.4	34.7
Net Income	48.7	(71.8)	60.2
ROE%	28.0	(29.5)	24.1
Loss Ratio%	54.6	58.0	64.8
Premium			
Solvency Ratio%	50.4	39.1	45.7

* Based on unaudited accounts for nine months ended Sep 30, 2009

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RATING RATIONALE AND KEY DRIVERS

- The rating reflects SIC's strong shareholding structure and effective governance mechanism, which has been lately strengthened with renewed interest of key shareholders – Hollard and Shaheen Foundation. The rating takes cognizance of the improved portfolio mix and high emphasis of the management on fortifying its systems and controls, which are expected to improve the underwriting profitability. Meanwhile, the rating also incorporates the relatively subdued solvency position of the company.
- The rating has been assigned a positive outlook and is dependent on the ability of the company to strengthen its capital structure and solvency position. Meanwhile, segregation of responsibilities at the management level, integration among key shareholders and adoption of a cohesive strategy by sponsors would remain crucial. Further, significant increase in the loss pattern or prolonged downturn in the stock market may deteriorate the risk absorption capacity of the company, thereby impacting the rating negatively.

ASSESSMENT

- Pakistan's insurance sector has experienced accelerated growth and robust profitability in recent years. However, the sector now faces major challenges arising from economic slowdown. Although certain macroeconomic indicators of the country have improved, poor security conditions and high interest rates remain a threat to economic growth. Meanwhile, the dreary performance of various industrial sectors and slow pace of recovery are likely to exert pressure on the insurance sector.
 - SIC traditionally had a higher emphasis on motor segment. However, in the recent period, the management focused on balancing its premium mix. Consequently, though the company's overall premium growth has remained mute in 2008 and 2009, there is an appreciable move towards a balanced premium mix. A slow down in auto sales also contributed towards lower auto business premium. This is expected to have a beneficial impact on the risk profile of the company. Meanwhile, SIC has enhanced its focus on fire and miscellaneous segments to support the topline. Nevertheless, as at end-Dec 08, motor segment continued to dominate SIC's portfolio mix (49%) followed by fire (21%), miscellaneous (20%) and marine (11%) segments. During 3Q09, the overall balance of the portfolio further improved as contribution of motor business to GPW reduced (42%) in favor of fire and miscellaneous segments. The company maintains a diversified customer base with top ten clients accounting for less than 12% of GPW.
 - Underwriting profitability of the company increased significantly during 2008 (+91% YoY) due to more balanced portfolio mix and lower loss ratios, which helped the company to trim down its combined ratio. However, the impact of strong underwriting performance was diluted by losses in investment portfolio (PKR 63mln) due to dismal performance of stock market during the year, which rendered the bottom line of the company in red. The company further improved its underwriting performance during 3Q09 on the back of lower loss ratio. Moreover, with the gradual revival in the stock market, SIC was able to book healthy investment income during the period, which has positively impacted SIC's profitability. Going forward, the company envisages moderate GPW growth (around 10%) and intends to maintain a balanced portfolio with motor segment not exceeding 50% of GPW.
 - The company maintains a sizable investment portfolio (3Q09: PKR 155mln), mainly in the form of equity investments, and income thereon makes a significant contribution towards its bottom line. The management of the investment portfolio is outsourced. The company plans to maintain an investment portfolio mix of 40% debt and 60% equity securities, going forward.
 - SIC has secured reinsurance arrangements with international reinsurers of sound repute including Mitsui Sumitomo Re (AA) and Hannover Re (AA-). Due to the gradual shift in the business portfolio, the overall cession levels have increased considerably during the last years (CY08: 24%, CY07:18%). The company has enhanced its treaty capacities across all business segments during the year.
 - Although premium solvency ratio has improved during 3Q09 after witnessing a dip in CY08, as investment losses eroded the equity base of the company, it still remains weak compared to peers. Going forward, the capital structure is expected to register gradual improvement on the back of SIC's policy of high profit retention and plans of issuing right shares in the medium-term in order to strengthen the equity base.
- 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. During the year, the ownership structure of the company changed slightly as First Capital Group sold its stake in Worldcall to Oman Telecom Company, which may divest its stake going forward. The key shareholders of SIC are, a). Hollard Insurance Company Limited (32%); a part of the largest insurance group in South Africa, the business interest of Hollard Insurance in SIC and Pakistan has increased recently with its entry in life assurance business in collaboration with Adamjee Insurance Company Limited b). Shaheen Foundation (33%), that is promoting welfare activities for the benefit of serving and retired Pakistan Air Force personnel, having diversified business interests and c). First Capital Security Corporation (16%), mainly holding company of First Capital Group (FCG); having interests in financial, insurance, media and real estate services, FCG's involvement in SIC has decreased due to reduction of its stake in the company.
 - The overall control of the company vests in the seven-member BoD having three representatives of Shaheen Foundation and two members from Hollard Insurance and First Capital each. The present CEO is associated with the company for the last five years.