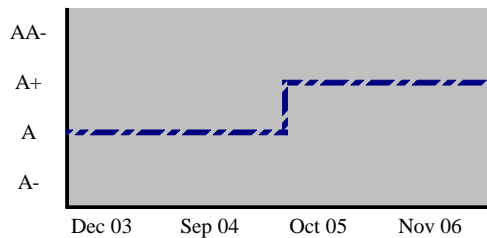


**HABIB INSURANCE COMPANY LIMITED (HIC)****RATING (NOVEMBER 2006)****HABIB INSURANCE COMPANY LIMITED**

	NEW	PREVIOUS
Insurer Financial Strength	A+	A+

RATING HISTORY**FINANCIAL DATA**

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	863.2	731.1
Total Equity	359.2	270.4
Underwriting Results	66.3	41.1
Pre-tax Profit	165.4	134.0
Loss Ratio (%)	41.18	44.98
ROE (%)	46.99	41.56
Premium Solvency Ratio (%)	148.41	142.22

ANALYSTS

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RATING RATIONALE ASSESSMENT

- The rating reflects HIC's sound underwriting practices and a strong financial base. The company follows a steady growth pattern dictated by its prudent risk identification criteria and is less influenced by desire to target a higher market share. At the same time, the rating recognizes association with Habib Group, with group business providing a sizeable low-risk contribution.
- HIC has adopted a cautious stance towards motor insurance, the volume driver for the insurance sector in recent years. This strategy has led to slight decline in its market share, albeit still remaining at around 2% of the total general insurance market. However, the company is following a steady growth pattern and achieved an increase of 26% in its GPW during 2005. The performance of the company, in addition to higher volumes, benefited from lower incidence of losses. This coupled with controlled increase in management and commission expenses, resulted in significant YoY improvement in underwriting results. At the same time, income from capital market operations – dividends and capital gains – continues to supplement the bottom line. HIC intends to maintain steady growth and the business expansion during first nine months of 2006 is in line with targets. However, loss ratio deteriorated during this period due to certain specific incidents, pressurizing the underwriting results.
- The captive business contributes around one-third towards the total premium. The proportion is gradually increasing mainly because of fast expanding businesses of a few group companies and HIC's improving ability to manage higher business volumes. All the business from group companies is negotiated on competitive terms and the management, due to good quality of risk and limited moral hazards, intends to continue pursuing this opportunity. HIC intends to remain cautious as to the motor insurance. New products development is a continuing process, whereby the company has recently launched health insurance. It is also working on developing travel related insurance. While the company is developing its marketing function, it does not plan to pursue business growth in an aggressive manner.
- HIC maintains excess of loss and surplus treaties accompanied by facultative contracts with international reinsurers mostly having ratings in 'AA' category. The company is following a consistent cession pattern with retention being around 55% of the total premium. The management is not targeting any change in its reinsurance arrangements. The company is also strengthening the risk management function by improving overall procedures and controls.
- HIC's well-managed and diversified investment portfolio, which continues to constitute around 50% of the total assets of the company, has earned sustainable investment returns for the company. Capital gains continue to be a major contributor to investment income. Substantial unrecognized revaluation surplus of PKR 514mln as at end-Sep 06 not only provides a cushion against stock market volatility, but is also perceived as a potential source of capital gains. HIC's share of investment income in the total operating income continues to remain higher than most of its peers.
- The company follows a prudent dividend distribution policy, which has helped in maintaining a healthy financial base despite steady business expansion. HIC has strong solvency position, higher than most of the peers, and maintains adequate liquidity mainly in the shape of a sizeable listed equities portfolio.

SUPPORT

- Although Habib Group (HG) is under no contractual agreement to support HIC, in PACRA's opinion, being the major shareholder with sufficient financial strength, HG would lend support if it proves necessary.

PROFILE

- Habib Insurance Company, in operation since 1942, is listed on Karachi and Lahore Stock Exchanges. Habib Group – one of the oldest and most well known groups with significant investments in the industrial and service sectors – is the majority shareholder in HIC. Overall control of the company vests in the Board of Directors, comprising seven members, with the majority of directors belonging to the Habib family.
- With a nationwide network of 15 branches, HIC underwrites all types of general insurance business. The company enjoys a higher degree of staff loyalty, reflected by a low turnover, and while ensuring job rotation provides continuous training.