



The Pakistan Credit Rating Agency Limited

Rating Report

EFU General Insurance Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 24-Dec-2018 | AA+ | - | Stable | Maintain | - |
| 29-Jun-2018 | AA+ | - | Stable | Maintain | - |
| 30-Dec-2017 | AA+ | - | Stable | Maintain | - |
| 30-Jun-2017 | AA+ | - | Stable | Maintain | - |
| 30-Jun-2016 | AA+ | - | Stable | Maintain | - |

Rating Rationale and Key Rating Drivers

The rating reflects the company's leading position in the general insurance sector. The company's performance matrix is an explicit evidence. The profitability has a healthy contribution from both underwriting and investment functions. Increasing emphasis on customer service including concerted efforts to bring efficacy in claims settlement process with support from technology helps in sustaining market share. Strong liquidity and sound cash flow generation ability provide strength to the rating. EFU Group continues to enjoy leadership in insurance industry – General and Health while securing second position in Life Insurance. In window takaful, EFU General Insurance remained leader, with Participant's Takaful Fund and Operator's Fund both in surplus. This furnishes strength to the brand and ability to serve diverse client needs and ability to capture large client base in the market. The company has posted strong profitability from underwriting and investment portfolio.

The rating is dependent on sustained competitiveness of the company. High growth in business volume, the industry leaders are expected to enhance their risk retention appetite with the emphases on risk management practices.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | EFU General Insurance Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | IFS Rating |
| Applicable Criteria | Methodology General Insurance(Jun-18) |
| Related Research | Sector Study General Insurance(Nov-18) |
| Rating Analysts | Zeeshan Munir zeeshan.munir@pacra.com +92-42-35869504 |



Profile

Legal Structure EFU General, incorporated in 1932; is the largest general insurance company in Pakistan and listed on Pakistan Stock Exchange.
Background Nationalization of life insurance companies in 1972 left EFU with general insurance business only. When private sector was allowed to undertake life insurance in 1992, EFU was the first company to establish a separate entity - EFU Life Assurance Limited (EFU Life).
Operations Company operations are divided into two zones i.e. 1). Southern Zone and 2). Northern Zone. It operates through a network of 52 branches including a branch in the Export Processing Zone (EPZ).

Ownership

Ownership Structure JS Group (JS) holds 35% stake through institutions whereas the Bhimjee Group (BG) holds 24% of the shareholding through individuals.
Stability The company assessed its control position in EFU Life Insurance and has classified it as its subsidiary with effect from 31st March 2018.
Business Acumen Bhimjee Family – one of the sponsors of the company - has strong footings in the insurance sector; General Insurance, Life Insurance, and Health Insurance. There is common brand name – EFU, and group is named as EFU group. JS Group is a well-renowned business group of the country. The group has varied interests in the financial sector, including asset management, financial advisory, stock brokerage, banking, textile, media services, and transport.
Financial Strength The sponsoring groups have a sound financial profile reflected by its highly successful business ventures in various sectors.

Governance

Board Structure EFU General's BoD comprises nine members including the CEO.
Members' Profile The Chairman of the board, Mr. Saifuddin N. Zoomkawala – ex-CEO of EFU General and seasoned insurance professional, has been associated with EFU Group since 1964. Mr. Hasanali Abdullah, the company's CEO & MD since July-2011, is associated with the EFU Group from 1979. He is supported by a team of experienced professionals, long associated with the company.
Board Effectiveness There are four board level committees including Audit Committee (AC), Investment Committee (IC) & Human Resource & Remuneration Committee (HRRC), Management Committee.
Financial Transparency The company's auditor, KPMG Taseer Hadi & Co, issued an unqualified audit report and review for CY17 and 1H18 respectively.

Management

Organizational Structure The company has instituted a detailed hierarchical organizational structure with clearly demarcated reporting lines to cope with extensive operations. The company has qualified and experienced human resource including qualified engineers with substantial exposure of the insurance business.
Management Team The management team has demonstrated commitment to the company having long term association, contributing positive energies for the betterment of the organization.
Effectiveness Management committee is further divided into four committees, a) Underwriting Committee, b) Claims Committee, c) Re-insurance/Co-insurance Committee d) Risk Management and Compliance Committee – all headed by the Chief Executive Officer except Risk Management and Compliance Committee which is headed by Senior Deputy Managing Director.
Claim Management System The respective department performs settlement of claims on the basis of size, strength, and capacity of the branch. The head office sets and reviews periodically the limits for settlement by the branches. Claims higher than that limit, are not only circulated to the higher management, but are also monitored by Head Office. After complete assessment and evaluation of the Survey Report and collection of relevant documents, the claim is paid.
Investment Management Function Company has a comprehensive Investment Policy Statement (IPS) laying down the guidelines for investment. IPS delegates the authority to investment committee of board to oversee the investment function. The members of the committee have the ongoing responsibility for managing the investment portfolio. There is a separate investment department, reporting to CFO.
Risk Management Framework The Company has recently established an ERM system overseen by Risk Management Committee to identify and monitor risks associated with various operations of the Company. Risk is categorized into five slots based on scores assigned in accordance with risk survey guidelines. The underwriting authority limits lie with divisions and units, whereas branches are authorized to issue pre-approved policy.

Business Risk

Industry Dynamics Pakistan's general insurance witnessed continuous growth (CAGR 4 years 11%) but economic slowdown may hamper future growth rate. Fire and motor segments have been growth drivers. Miscellaneous segment has seen largest growth in non-conventional avenues, third-party, health, crop etc. Industry is bringing in technological advancements aimed to enhance efficiency and customer experience.
Relative Position EFU is the largest general insurance company in Pakistan with market share of ~ 23% at the end of Sep-18.
Revenue The company witnessed a decrease of 6% in terms of GPW written as at end-Sep18. However, the Net Premium Revenue remained stagnant (end-Sep18: PKR 5.94bln, end-Sep17: PKR 5.98bln), as all large sized risks were ceded.
Profitability The sustained claims ratio (end-Sep18: 40%, end-Sep17: 38%) and expense ratio end-Sep18: 38%, end-Sep17: 37%), translates into a strong combined ratio (end-Sep18: 78%, end-Sep17: 75%).
Investment Performance The investment income remained steady at PKR 1.2bln as at end-Sep18 as compared to PKR 1.3mln in the corresponding period.
Sustainability EFU plans to retain its leadership position in the market while managing sustainable profitability, ensuring consistent improvement in prudent underwriting and risk management. It intends to explore opportunities by introducing new products and diversifying current product portfolio; management would continue to focus on bancassurance.

Financial Risk

Claim Efficiency EFU General's risk absorption capacity is reflected by its strong liquidity position, providing 2.9 times cover to the claims liability.
Re-Insurance EFU General maintains re-insurance treaties – mix of Surplus, Quota share and XoL - with international reinsurers mostly having S&P and or AM Best rating of 'A+' and 'A-' including Swiss Re (A by A.M Best), Scor Re (A by A.M best), Trust Re (A- by A.M Best) and Malaysia Re (A- by A.M Best).
Liquidity Sizeable investment book PKR 27bln at end-Sep18 (end-Sep17: PKR 24bln), a major portion of this investment is in liquid investment (PKR 15bln).
Capital Adequacy The company is well equipped in capital adequacy as per the requirements of SECP. The total equity of company stands at PKR 19.8 bln.



EFU Insurance Limited (EFU General)

| | PKR mln 30-Sep-18 | PKR mln 31-Dec-17 | PKR mln 30-Sep-17 |
|---------------------------------------|----------------------|----------------------|----------------------|
| BALANCE SHEET | | | |
| Investments | | | |
| Liquid Investments | 15,211 | 16,126 | 12,367 |
| Investment in Associates | 9,544 | 11,415 | 11,837 |
| Other Investments | 1,857 | 1,847 | 155 |
| | 26,612 | 29,388 | 24,359 |
| Insurance Related Assets | 6,462 | 6,358 | 7,806 |
| Other Assets | 8,791 | 7,463 | 8,232 |
| Total Assets- Window Takaful | 619 | 434 | 415 |
| TOTAL ASSETS | 42,484 | 43,643 | 40,812 |
| Equity | | | |
| Equity | 19,792 | 20,842 | 16,864 |
| Underwriting Provisions | 9,049 | 8,959 | 10,169 |
| Insurance Related Liabilities | 10,701 | 11,064 | 11,849 |
| Other Liabilities | 2,579 | 2,540 | 1,688 |
| Total Liabilities- Window Takaful | 363 | 238 | 242 |
| TOTAL EQUITY & LIABILITIES | 42,484 | 43,643 | 40,812 |
| INCOME STATEMENT - Extracts* | | | |
| | 30-Sep-18 | 31-Dec-17 | 30-Sep-17 |
| Gross Premium Written (GPW) | 14,426 | 18,838 | 15,277 |
| Net Premium Revenue (NPR) | 5,939 | 7,616 | 5,984 |
| Net Claims | 2,371 | 2,978 | 2,296 |
| UNDERWRITING RESULTS | 1,201 | 1,512 | 1,472 |
| Investment Income | 1,221 | 1,835 | 1,299 |
| Other Income/ (expense) | 96 | 46 | 83 |
| Profit/Loss from Takaful operations | 85 | 47 | 27 |
| PROFIT BEFORE TAX | 2,603 | 3,440 | 2,881 |
| RATIO ANALYSIS | | | |
| | 30-Sep-18 | 31-Dec-17 | 30-Sep-17 |
| Underwriting Results | | | |
| Loss Ratio | 40% | 39% | 38% |
| Combined Ratio | 78% | 80% | 75% |
| Performance | | | |
| Operating Ratio | 56% | 55% | 52% |
| Investment Income Ratio | 21% | 24% | 22% |
| Liquidity & Solvency | | | |
| Liquidity Ratio – times | 2.9 | 2.9 | 2.0 |

* Conventional Only



INSURER FINANCIAL STRENGTH (IFS) RATING RATING SCALE & DEFINITIONS

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

| RATING SCALE | DEFINITION |
|--|---|
| AAA | Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small. |
| AA+ AA AA- | Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small |
| A+ A A- | Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small. |
| BBB+ BBB BBB- | Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable. |
| BB+ BB BB- | Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant. |
| B+ B B- | Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant. |
| CCC CC C | Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent. |
| D | Distressed Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator. |

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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